

# HOUSES OF THE OIREACHTAS

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## AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

### JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

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*Dé Céadaoin, 8 Iúil 2015*

*Wednesday, 8 July 2015*

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The Committee met at 9.30 a.m.

#### MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

**Nexus Phase**

**Department of the Taoiseach - Mr. Brian Cowen**

**Chairman:** As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session, and can I advise members and those in the public Gallery to ensure that their mobile devices are switched off?

Today's public hearing is a discussion with Mr. Brian Cowen, former Taoiseach and Minister for Finance. And, in commencing this morning's session, I would like to welcome everyone to the public hearings of the Joint Committee of Inquiry into the Banking Crisis. Today we continue our hearings with senior members of the Government who had key roles during and after the crisis period. This morning and this afternoon, we will hear again from Mr. Cowen, former Taoiseach and Minister for Finance. At this morning's session, we will focus upon Mr. Cowen's tenure as Taoiseach, from his appointment in May 2008 until January 2009, encompassing the bank guarantee and the nationalisation of Anglo Irish Bank.

Before I hear 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 so do, you are entitled thereafter only to a qualified privilege in respect of your evidence to this committee. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the 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 these documents are confidential and they should not publish any of the documents so displayed. The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets and core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to Mr. Cowen, please.

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

Mr. Brian Cowen, former Taoiseach.

**Chairman:** Once again, thank you, Mr. Cowen, for being here this morning. I understand that you requested 45 minutes for your opening statement, so if I can please ask you to commence and to make your opening remarks, please.

**Mr. Brian Cowen:** Thank you, Chairman, and good morning to you and the members of the committee. I'll be as, move as quickly as I can through this statement. I'm here to resume my evidence and discuss with you matters relating to this inquiry during my time as Taoiseach from May 2008 to March 2011. I wish to reiterate a couple of points I made the last day regarding my

own approach to the events and policies that relate to the Government I led during my time as Taoiseach. In setting out my position and answering all questions, it is not my intention in any way to pass my responsibility to others. I'm stating clearly from the outset today that I accept my share of responsibility for what happened to our country and our people during the time in question. Last Thursday, I pointed out that we pursued an economic policy that had a plausible basis, based on the assessment of risks, leading up to the crisis. I've stated that it is now evident that there was a clear misjudgment of the risks and the possible impacts. The overall conclusion, when looking at risks and opportunities for the economy during those years and the mid-term outlook at the time, was that there would be a continuation of economic growth, and that we wanted to expand the productive base of the economy by investing in our infrastructure and improving the provision of public services. I provided ample evidence that this developmental approach is one that was broadly shared across the political spectrum at the time and much of the public debate was whether the rate of improvement and investment was going fast enough. I've also accepted in my evidence thus far that had we spent less, we would have been less exposed when the crisis hit. It would have come at a cost of having less employment and economic growth but that in turn would have reduced our ability to come out of the recession as relatively quickly as we have. One way or the other the impact of the financial crisis has meant a serious adjustment in the public finances, which could not have been avoided in any event.

I will now outline, to the inquiry, some key elements of my written submission. The domestic standing group continued its work after I became Taoiseach throughout the summer months. On the banking front this ... the briefing remained that the Irish banking system was soundly based on all key indicators of financial health, solvency, liquidity, acid quality and profitability. Irish banks had no meaningful exposure to the sub-prime securities, which were deemed to be at the root of the international liquidity crisis overall. Irish banks were experiencing significant challenges in rolling over their funding sources and international sentiment was negative. While banks were working intensively to exploit any funding opportunities available internationally, the banks in Ireland had built up large reserves of assets that were eligible to be used as collateral against lending by the ECB in the event that other funding sources weren't available. In general, Irish banks were reluctant to access this funding owing to the risk that it would send a negative signal to the market and lead to the shutting down of other credit lines. The Financial Regulator and the Central Bank were monitoring the liquidity position on the banks on an ongoing basis. The Financial Regulator was impressing upon banks' boards and top management about the need to examine all options to pre-empt the emergence of any difficulties. It was stated that State intervention is only appropriate in circumstances that problems in an individual institution run the risk of creating systemic difficulties in the national financial system as a whole. Strong performance in recent years of Irish financial institutions was providing a good cushion, it was believed, to deal with the then financial market environment.

By late June, the continued disruption of wholesale financial markets and its effects on banks securing funding on an ongoing basis had persisted and commentary was now suggesting that it would extend well into 2009. The scale of the impact on the sub-prime housing market in the US was gathering momentum. Work was also being done in relation to competition policy issues in the case of one financial institution being taken over by another participant, or the prospects of that, and the need to ensure that any Competition Authority approval could be speedily provided if required. Liquidity issues continued to be monitored over the July-August period. The assessment of the international financial market situation as it was affecting Ireland stated that in the context of the general loss of confidence in the financial sector, the perceived vulnerabilities in the Irish domestic financial sector and the high levels of exposure to the property and construction sectors had come into sharp focus.

## NEXUS PHASE

The share prices of individual banks at this stage were worth about half of their values compared to February 2007. Irish banks were coming under pressure to maintain dividends. There had been a decline in growth and lending. New mortgage lending had declined from €16.5 billion in the first six months of 2007 to €13.8 billion in the same period in 2008. There was little international financial investor appetite in Irish financial institutions.

In the context of international concerns regarding the growth and dependence by banks on liquidity from central banks, while it was noted that the overall level of ECB funding availed of by banks in Ireland had increased from €39.5 billion to €44 billion, domestic banks accounted for just €15 billion of the total, though this figure fluctuates over time. The increased costs and reduced availability of wholesale funding on international credit markets, particularly for longer terms, had led Irish banks to tighten lending standards coinciding with the downturn in the real economy driven by the necessary adjustment of the construction sector. The principal focus remained on the restriction of liquidity to the Irish financial institutions. Contingency planning in relation to legislation related primarily to bringing an individual lending institution under State protection and at no stage did the work of the DSG embrace the possibility of a systemic risk to the whole banking system.

Things escalated in September when, first of all, there were rumours about INBS. It was evident that confidence was fragile among the individual depositors and this lack of confidence rapidly spread to all lending institutions. Reports of people withdrawing their money from Irish lending institutions became amplified through media commentary and there was a general disquiet at what was happening at home and abroad. A silent run by depositors had begun on Irish banks. It was felt, as a first step, that ordinary individual depositors needed to be reassured in response to this worrying development. The Government decided after a consultation with the relevant authorities to increase the existing deposit guarantee scheme from €20,000 to €100,000 and to increase cover from 90% to 100%. This appeared to have the desired effect in reassuring people about the safety of deposits up to €100,000. As a result of that Government decision, the amount of money covered under the new terms of the deposit guarantee scheme was over €70 billion. This decision had the desired effect of providing confidence to depositors who had deposits in accounts up to that amount, in that Government was standing behind those accounts. The number of depositors covered was numerically large, although wholesale deposits were significantly of greater value. It temporarily bolstered confidence in the system generally, though deposits of over €100,000 remained outside the terms of the scheme.

Analysis up to this point was based on information from and conversations with PwC regarding Anglo and Goldman Sachs regarding INBS. The initial focus by Merrill Lynch had been on Anglo and INBS but this soon expanded to include all six banks, encompassing Irish Life & Permanent, EBS Building Society, Allied Irish Banks and Bank of Ireland. The Merrill Lynch draft preliminary analysis presented a number of options and the main elements of each option were considered. On 28 September Merrill Lynch presented a memo containing more information and an in-depth analysis and this memo stated that, liquidity issues aside, all of the Irish banks were profitable and well capitalised. However, liquidity for some banks could run out in days rather than weeks. The memo highlighted the need for the Government to preserve the stability of the Irish financial system as a whole and to safeguard the interests of bank customers to avoid widespread panic. PwC was engaged to review the loan books and the capital position of the six Irish banks covered by the guarantee. The PwC report stated under a number of stress test situations that all of the Irish financial institutions which they reviewed would have sufficient capital to meet the regulatory requirements up to 2011. We knew over the weekend of 27 and 28 September that Anglo and Irish Life & Permanent were going to find it hard to get

through the following week in terms of having cash to conduct their day-to-day business.

At the Government meeting on Sunday, 28 September, the Minister for Finance gave an oral presentation to update the Cabinet on the evolving situation. He made them aware of the context in which we were operating in general terms. It's noted that no decision was taken at the Cabinet meeting on that day in relation to this matter. The international banking situation was very volatile and the liquidity position of Irish banks was being seriously affected as a result. At that meeting the Minister for Finance reiterated the position that the Government was committed to the stability of our financial system. The Government wanted to protect the whole financial system and secure its stability and ensure that all deposits in Irish financial institutions were safe. By Monday, 29 September there had been more banking casualties: Hypo Real Estate in Germany, Fortis Bank in Belgium and Bradford and Bingley in the UK.

Regarding the guarantee night, I wish to state that what I relay here about what happened on the night of 29th and 30th ... sorry, the 29th and the morning of the 30 September 2008 is, to the best of my recollection, knowledge and belief, a true and accurate account. However, I cannot be absolutely certain of the exact chronology or events as they unfolded but I believe that this account provides a substantive recollection of that night's events and the process by which decisions were reached.

Money continued to leave the system and the rate run increased to such an alarming degree that arrangements were made for a meeting to take place at the Department of the Taoiseach after close of business on the 29th to review the situation. This took place in the meeting room adjacent to the Taoiseach's personal office. It's worth remembering that over the course of that evening, while I remained in the meeting room, some people left the room for the purpose of consultation, information gathering or to undertake some technical work. All major decisions were taken in the meeting room.

From the beginning of the meeting, those in attendance were: myself; the Minister for Finance, Brian Lenihan TD; Attorney General, Paul Gallagher SC; the Secretary General of the Department of Finance, David Doyle; assistant secretary of the Department of Finance, Kevin Cardiff; the Governor of the Central Bank, John Hurley; deputy governor of the Central Bank, Tony Grimes; chairman of the Financial Regulator, Jim Farrell; chief executive of the Financial Regulator, Patrick Neary; and Eugene McCague, from Arthur Cox and Company, solicitors. The Secretary General of the Department of the Taoiseach, Dermot McCarthy, joined the meeting after it had started having been delayed performing other duties in preparation for a Cabinet meeting the next day. I have a recollection also that another Department of Finance official, William Beausang, was present for some of the meeting also. The meeting began around 6.15 p.m. - 6.30 p.m. and as I was chairing the meeting, I didn't take any notes myself.

As the meetings began, the seriousness of the discussion become clear very quickly. Governor Hurley outlined what had been happening during the course of the day regarding the lending institutions. He referred to a situation which had developed at Anglo where it had lost €2 billion in deposits that day and they expected the rate run ... sorry, the run rate to continue the next day. Before Monday, the opinion was that Anglo would have sufficient funds during the course of that week - this was now not going to happen. The issue was going to have to be addressed immediately. Bank shares were down in the stock market and he pointed out that Anglo had run out of cash. He said a very serious situation had developed. Other institutions were also having significant liquidity problems and unless the outflows stopped and reversed, we were heading into a very dangerous territory indeed. This had developed into a system-wide crisis.

## NEXUS PHASE

Mr. Neary and Mr. Farrell, from the regulator's office, outlined their serious concerns. I recollect that they were of the view that something significant had to be done immediately to stabilise the situation. In that respect, they spoke of the need for the introduction of a guarantee to be considered in view of the serious situation which had developed across the financial system. I recall I asked the Governor what the view of the ECB was and to provide us with an update as to what the ECB's position was at that point. Governor Hurley had been in touch with the president of the ECB, Jean-Claude Trichet, over the weekend and confirmed to the meeting that there was no euro-wide initiative in the offing and just as other countries had to take decisions on their banks, it was clear that we were on our own, we would have to deal with this at a national level.

The position of the ECB, of which Governor Hurley was a member of the governing council, was that no bank was to be allowed fail because of the contagion effects that would ensue in the euro area. In other words, there could be no Lehman Brothers type event in the euro area. Confidence had to be restored as a matter of urgency or else the run rate of outflows would ... could accelerate and leave us with an irretrievable situation. The Governor made the point that we would have one go at addressing this and if it didn't work, we may not get a second chance to revisit it as confidence could be gone. Where a first initiative may be deemed inadequate by the market, putting forward a second course of action could then completely undermine our credibility. His outlining of the seriousness of the situation had an immediate impact on all present.

The Minister for Finance contributed to the meeting at this point and agreed with the analysis and the up-to-date position given by the Governor. He indicated that he felt part of the solution would be the nationalisation of Anglo Irish Bank. I did not think that nationalisation should be a first course of action and I said so. As I said, my first thoughts in assessing the situation that had been outlined was that if ... I did not find ... that I did not find the nationalisation option attractive as a first response. I had a number of reasons for thinking like that. First of all, I did not see it as a confidence-building measure at that stage given the volatility in the markets. For example, would it create an expectation that other nationalisations were to follow? Secondly, nationalising a bank meant taking all of the assets and liabilities onto the State's books there and then, immediately. The nationalisation option was, in effect, an open-ended guarantee. The guarantee option looked like a safer option if it was time-limited. Given the sentiment in the markets and the state of the banking inquiry internationally, as well as the ... sorry, the state of the banking industry, internationally as well as domestically, there was no likelihood of what has subsequently been termed a "temporary" nationalisation, but a temporary guarantee was a possibility.

The question I was asking was: how do we get liquidity back in to the system and quickly? That was the most important immediate objective. Without doing that successfully, all of the banking system could drift into insolvency because the shortage of cash in the system would mean that day-to-day operations in the banks could not continue within a short space of time. The view was that the banks in Ireland were solvent but illiquid to varying degrees, depending on the institution, and the best of them had, at most, only a few weeks left, assuming the deposit outflow rates did not accelerate. The Financial Regulator confirmed to the meeting that all the institutions had sufficient capital and were solvent. Allowing Anglo to fail was simply not an option on the night. It would have implications for the whole system. The costs involved in terms of causing a run on other banks as well would put the whole payments system at risk and cause irreparable damage to the economy as a result of a banking meltdown. It would, in Governor Hurley's words, "set the country back 25 years", as he put it.

We were clearly in an unprecedented situation, the dynamics of which were moving very fast. Emergency liquidity assistance is not designed to address a situation when all of the banks are in trouble. It can work in a specific institution which has liquidity problems once it does not come to public notice. The Northern Bank, sorry, the Northern Rock example, proves that in those circumstances the use of ELA can have a more destabilising effect and cause the opposite of what was intended. Putting together an ELA fund from the country's own domestic sources, made up of cash balances from the Exchequer and assets from the National Pensions Reserve Fund and the Central Bank itself and simply applying that to the liquidity requirements of banks was not going to restore international confidence and get capital flowing back into the banks from external sources. The options were narrowing down to a nationalisation plus a guarantee, or simply a guarantee of the system itself. The other options referred to by Merrill Lynch, which had been discussed, were discounted at that stage. It has to be emphasised that no decision was risk free. There was no one good or right option that would guarantee a solution to the problem. It was about trying to pick the least worst option, and make sure that if we had only one go at trying to stabilise the situation, that it would have every prospect of doing so. Trying to forecast where all of this would go next was extremely difficult to predict.

It was strongly stated to us by our own regulatory authorities that this was a liquidity problem and not a solvency problem. At no stage was it contemplated then or, indeed, until the NAMA valuation of loans emerged, that the funding gap for the banks would reach the levels that it did, or that the impairment of loans in the banks would be of the horrific nature or magnitude that came to pass. I was coming to the view that, given what was potentially at stake, whatever we did would have to have an immediate and dramatic effect in stopping the outflow of funds from banks and, indeed, reversing the trend if possible.

Word came into the meeting that the chairman and CEO of the two main banks were looking to meet with us. We further discussed it, and I adjourned the meeting for a short break. During that break I decided to get an external view. Mr. Alan Gray, an economist and a Central Bank board member, was someone whose views I also respected. I phoned him and asked him what he thought of a guarantee option being used. Mr. Gray emphasised that providing a guarantee would, obviously, give an advantage to those institutions to whom the guarantee would apply *vis-à-vis* competitors, since they would have the backing of the Irish Government. In that respect, it was important to be mindful how other lending institutions would regard it, and he stated that compliance with EU state aid rules would be an important factor to bear in mind. In dealing with that issue, it would also be important to be seen to charge a proper fee for the value of that guarantee to those institutions who got the benefit of it. Mr. Gray also stated that if we were considering the introduction of a guarantee of any kind, that it should be strictly time-limited. This would assist in arguing that it was proportionate to meet the serious situation that was being dealt with. I thanked him for this advice. During this break from the main meeting, the Minister for Finance and I weighed up options ourselves in my personal office as to where we were at that stage. We reviewed the discussions from the meeting thus far and he was minded to still go the nationalisation route for Anglo and guarantee the rest of them. I explained my reservations about it and reassured him that nationalisation was something that we couldn't rule out in the future and would remain an option available to us. I also told him that a time-limited guarantee seemed to me preferable than giving an open-ended guarantee which a full nationalisation would entail. I emphasise this point. We were talking the issues through and there was no question of our conversation being in any way adversarial or confrontational with each other. Both of us were deliberating and striving to find the best course of action for the country at this point in time.

## NEXUS PHASE

The meeting resumed with senior officials in the main meeting room beside my personal office. We were reminded that the bank representatives were waiting in the building and after some time they were called into the meeting. The representatives from the banks confirmed that the position was every bit as bad as the Government believed and immediate action was necessary to address what was happening. We were informed that the money markets had decided that Irish banks were to be avoided. The bank representatives were concerned about INBS as well as Anglo and they wanted to be differentiated from those institutions in that respect. Without stating it openly, it was clear to me that they wanted those two institutions nationalised and a guarantee to be provided for their institutions. What was clear was that these two well-established banks were finding it very difficult to get money to keep going. They had enough at their present run rate to get through another couple of weeks. There was certainly no indication from either bank that they felt they were in any way exposed to the extent and level that they believed the other institutions were. They wanted to be treated differently and sought a guarantee. They felt there was an adverse reputational impact being imposed on them as things stood at that time. I did not comment on the presentations made by the banks. We would consider their views but they were not going to be participants in any decisions. They then left the meeting. It was clear that all the banks were running out of cash and, depending on the run rate, it could be days rather than weeks. This reaffirmed my view that something comprehensive would have to be done. I was also under no illusions that they were putting themselves forward as safer bets than other banks and what concerned me was that they were looking for a guarantee for themselves while telling us to take what they saw as problem institutions onto the State books immediately.

I recall Kevin Cardiff, assistant secretary of the Department of Finance, being asked at some point by the Secretary General, David Doyle, to give his view having heard all of the arguments. Mr. Cardiff was of the view that a nationalisation of Anglo and a guarantee for the rest of the banks was his preference. He accepted it was a judgment call and there was no single right answer to our dilemma. The liquidity problem was the essential initial hurdle that had to be jumped for us to have any chance of getting through the first stage of this crisis. The market was going to react to whatever initiative was put out there: our collective hope was that it would react in the right way. I remained of the view that we needed to keep this as simple as possible so that nationalisation was not ruled out down the line, if such a measure proved necessary, as I had explained earlier to the Minister for Finance. The Governor emphasised again that we only had one go at it and we needed to convey a message that was easily understood for it to work and even at that it might still not work. The discussion continued about the nationalisation or guarantee options. I recall too that if we decided we were going to go the guarantee option that it would be limited to two years.

Eventually, I put it to the table that it seemed to me that a full guarantee option provided the best prospects of addressing the urgent liquidity problem and of sending a clear message that Ireland was standing behind the financial system - which would be understood by the markets - and for a limited time. We hadn't much room to manoeuvre. It would have the benefit of being an impactful measure which could solve the immediate and pressing problem. It is my recollection that I then asked everyone could we run with a guarantee-only approach in principle. There was agreement on that and further details would now have to be worked out. The question arose too that we needed to make some contingency arrangements if the announcement didn't work and Anglo needed some support the next day. The bank representatives were brought back into the meeting and the issue of liquidity support for Anglo was raised with them. My recollection is that their response was very cautious and ... as it was a technical issue and ultimately was dealt with in discussions in another part of Government Buildings afterwards. We went on to



discuss then what way a guarantee would be structured. The pricing mechanism and the category of cover was also discussed.

When that meeting ended, bank representatives left; it was time for detailed decisions to be taken. In deciding upon the senior bondholders, it is important to point out that the holders of these type of bonds in Irish financial institutions include proceeds of Irish pension funds, large credit union deposits as well as deposits from religious and charitable trusts. While no one would suggest that those funds should be at risk, in law, all holders of bonds of the same category, whether foreign or domestic, have to be treated the same way. In other words, you cannot protect some senior bondholders and not others. When considering the case for including existing senior bondholders in the guarantee, we decided that if these bondholders were disadvantaged by not being included, the system would end up relying exclusively on new bondholders to lend their money to the financial institutions with the prospect of driving away existing funders at a time when confidence in lending to those institutions was so low.

Later on that night, the question of including junior bondholders, i.e. dated subordinated debt, came up. I have a recollection of being in the room with the Governor of the Central Bank at the time when this issue was raised. It had been mentioned earlier in the Merrill Lynch stuff but we decided that, given the uncertainty that was in the market, it might be best to include junior bondholders on balance as they were a very small percentage of the total securities that were being covered and we wanted to maintain maximum market access to the ... for the Irish financial system from outside. I have made the point before that the great portion of this subordinated debt did not mature during the two years of the guarantee in any event and 80% to 90% was not paid back because these junior bondholders were excluded from the eligible liabilities guarantee which was ... we adopted, I think, in November 2009. And that ... the maturity of those bonds came up after the September 2010 two-year deadline when the first guarantee had expired. This meant that there were substantial haircuts when it matured for payment after 2010. It represented just 3% of the total liabilities covered. At some point, I was notified that the TARP proposal had been voted down by the US Congress when this was going on as well and I immediately said to myself, "If there were problems on money markets today, what's it going to be like tomorrow?"

The Attorney General emphasised the need to get together to marshal the arguments for the EU competition director general to ensure that the guarantee complied with EU state aid rules. The necessity to deal with an extreme disturbance in the economy is allowed under those rules. We obviously had to meet the criteria and there was also work to be done to prepare for the Dáil the next day. I do recall there was a drafting process regarding the wording for the guarantee decision itself and arrangements had to be made for the announcement and publication of the decision before the markets opened the next morning. At one stage in this drafting process, Mr. Cardiff voiced his concerns to me that the draft wording which the banks had given him was too vague. I told him to make sure that only what we had decided on would be included and to tie that down to his own satisfaction. Minister Lenihan had at a late stage to ... gone home because he had a very busy schedule to fulfil from early the next morning. I had suggested to him that he might do that. He told me some time afterwards that he wasn't present in the room when the dated subordinated debt issue was decided upon. The decision having been made, an incorporeal Cabinet meeting took place. Ministers were contacted and the decision was confirmed. The minutes of the incorporeal meeting that confirmed the decision were adopted by the Cabinet meeting we held on the next Tuesday morning, that following morning, 30 September. My recollection is I left the building around half three.

## NEXUS PHASE

In the period post-guarantee, the Department of Finance, along with Central Bank, Financial Regulator and NTMA, worked with Anglo and other financial institutions to examine all options to maintain stability and proper functioning of the banking system. Arising from these discussions, in early December 2008 the Government announced its decision to support a recapitalisation programme for financial institutions in Ireland of up to €10 billion. Despite the Government's efforts to reassure the market by pledging capital support to the bank, negative market sentiment towards Anglo continued. In December, the board of Anglo told the Government that it required help to raise ... in raising capital. Merrill Lynch and PwC were sent in to advise the Government and the Minister on what the next steps should be. Liquidity concerns mounted over the course of December and January and approximately €3 billion in corporate deposits were lost, and the liquidity position in the days leading up to nationalisation were extremely fragile. Further credit rating downgrades were imminent, which were expected to drive a further €6 billion of outflows in the near future. At that point in time it was not felt that the use of Central Bank or NTMA options to replace this liquidity would be appropriate. It was decided, following consultation with the Central Bank and the Financial Regulator, that greater certainty could be provided by taking the bank into State ownership. NTMA and Merrill Lynch were in agreement with the nationalisation.

At the time the decision was made I was in Japan leading a trade mission. I received a phone call from the Minister for Finance stating that it was necessary to proceed with the nationalisation decision immediately. His advisers and the Central Bank and the Financial Regulator were in agreement that this was now necessary to protect our banking sector. He confirmed that this was his own view also and then authorised the Tánaiste to call a Government meeting and a memorandum from the Minister for Finance be put to Government for decision that day.

An important factor in the decision to nationalise Anglo was the concern that corporate governance issues could destabilise the bank itself and threaten the stability of the wider financial system. The Government could not allow a situation to develop where the collapse of the bank might have occurred and the Government and the taxpayer would have been faced with the prospect of immediately having to pay out billions of euros to customers who had deposits at the bank.

Throughout the bank guarantee period, September '08 to September 2010, it is readily recognised that the European Central Bank provided significant liquidity assistance to the Irish banking system, enabling it to continue to function with the necessary cash for day-to-day operations, which was indispensable to the functioning of the economy. From the time Greece required external assistance from other member states in April or May of 2010, the interest rates on Irish sovereign debts started to increase significantly. And by September 2010, Mr. Trichet of the ECB began to articulate concerns to Minister Lenihan regarding the pressure that was coming to bear on our fiscal and banking situation.

The Government was committed to developing a four-year plan that would set out how Ireland was going to reduce down its structural deficits to 3% by the end of 2014 as an effort to rebuild confidence in the international credit markets about our ability to bring the public finances back into reasonable balance. Although the ECB was very concerned about the large commitment they were continuing to make to the liquidity of our banking system, they also wanted restructuring proposals. Throughout the financial crisis there were more frequent meetings taking place, both at the level of Council of Ministers and Heads of State and Government level. We were anxious not to have too big a time gap between the announcement of a four-year plan and the budget for that year ... for the following year. The European Union, through

Commissioner Rehn's office, was anxious to know what we had in mind in terms of the fiscal parameters of the plan. The ECB were liaising very closely with the EU Commission on these matters. I would say that they were more hawkish in terms of the rate of adjustment they felt the markets needed to see in order to restore confidence, which had been shaken since the Greek crisis erupted. Minister Lenihan had developed a very good relationship with EU Commissioner Rehn and indicated to him that what we had in mind was a €15 billion adjustment, with budget 2011 the first instalment of €6 billion. I recall this indication was given in early November. Being funded until June 2011, we felt that maybe a precautionary programme could be discussed with the EU, to be available if we needed it.

It became very clear to me very quickly that people were trying to bounce us into a programme in principle. I have no doubt that there were elements within the EU institutions who were providing inspired leaks to the media with that agenda in mind. Subsequently, the rumour machine went into overdrive from what were termed generally as "eurozone sources" that suggested we were applying for an EU-IMF programme. The Cabinet meeting on Tuesday, 16 November heard from Minister Lenihan on the outcome of the previous two days discussions. He had to go to a Eurogroup and ECOFIN meetings that week and, on the basis of the progress that was being made, he was continuing to engage and report back to Government. The pressure was intense at those meetings. The ECB were at all times pushing for this position of Ireland being in a programme without explicitly confirming that it would continue to support the Irish banking system.

At the start of ... going back for a moment, at the start of 2010, though in deep recession, Ireland, through the NTMA, was able to borrow at rates that were only slightly higher than normal. At the end of April 2010 the budget was fully funded until mid-2011. Around this time EUROSTAT, the statistical agency of the European Commission, announced that the transactions involving the recapitalisation of Anglo would have to be included in both the measurement of the Government budget deficit and debt. Although this was largely a matter of statistical classification with no underlying financial impact, the optics were bad because it pushed up the budget deficit for 2010 as a percentage of GDP to a high level, albeit on a once-off basis. By April it was becoming clear that Greece would no longer be able to retain the confidence of market lenders, it had large budget deficits, long-standing structural problems and low growth, which put its public debt on a clearly unsustainable trajectory. International perceptions were not helped by a consistent pattern of Greece, unfortunately who had ... where there was data that wasn't correct ... that it provided to the EU and other international bodies. Greek Government bond yields soared to over 15% and its Government could not borrow any further. It applied for external assistance in April 2010. Standard and Poor's, the credit rating agency, gave an unfavourable rating assessment for Ireland in August 2010 and Irish bond yields, Irish Government bond yields, increased sharply. At the end of September 2010, the Government announced its intention to withdraw from the markets as a tactical move since we were fully funded until mid-2011. At the end of September, higher costs of the bank recapitalisation programme were announced. Mid-October, Chancellor Merkel and President Sarkozy declared that a new permanent euro area financial rescue fund would be set up by 2013 and would require private sector creditors to accept some debt restructuring. This statement was known as the Deauville declaration. It was clarified afterwards that the debt restructuring provision would only apply to new debt after 2013. The original statement had caused further market jitters and the damage was done and bond yields jumped further.

We had indicated in September 2010, to the EU Commission and to the ECB, that we were preparing a four-year national recovery plan to be published in November, prior to the budget,

which would show that we were committed to an adjustment programme that would bring the budget deficit down below 3% by 2014. On 4 October Minister Lenihan received a letter from the ECB President expressing concern about the situation of Irish banks. On 8 November EU Commissioner Olli Rehn visited Dublin and on 11 November the bond yield rose to 8.6%. Governor Honohan suggested that bond yields would fall to more sustainable levels if the planned fiscal adjustment was implemented. On 12 November the ECB, the governing council, decided that it could not sustain its large exposure to Irish banks. On the same day, ECB-EU sources commenced off-the-record media briefings leading to reports that Ireland would need a bailout and the discussions were under way. On 13 November there were internal discussions with myself, Minister Lenihan and key officials. We were clear that if discussions were to take place it would be, if you like, talks about talks. In other words, we made no commitment at that point to formally apply for assistance until we were satisfied what the authorities had in mind and the conditionality attached to it. The off-the-record briefings were clearly trying to create a situation where a formal Irish approach for assistance was being portrayed as a *fait accompli* by those informed sources, without prior agreement on conditionality. This was unacceptable to us. We were not against exploring the issues with the EU authorities but neither should they presume or anticipate what decision the Irish Government would make. We wanted to know what they had in mind before we would indicate what position we intended to take. We were looking to explore what possibilities there were before giving our considered view.

At the Cabinet meeting on 16 November the Cabinet was brought up to date about the situation that was developing. I did not like the continuous anonymous briefing against Ireland, which I saw as an attempt to bounce us into a decision before we had further clarification. At the ECOFIN meeting in Brussels on Tuesday of that week, it was included in the Council's published conclusions that an EU delegation, with IMF staff joining them for the first time, would travel to Dublin to continue the consultations. I underestimated the impact of the "IMF coming to town" element, which immediately sent the message that this was now a done deal, rather than a genuine continuation of existing discussions up to then. This perception was further reinforced when the Central Bank Governor gave an interview with RTE, from Frankfurt, on the morning of the meeting in Dublin by saying that while it was a matter for the Government in the first instance, he said he believed that a deal would be done and a loan would be agreed. This development showed the Government in a bad light because the interpretation given to events, that we were keeping what was going on away from people. In fact we were trying to put ourselves in the best position we could before any question of formally requesting assistance. We wanted to know exactly what we were getting into before we agreed to formally apply for the programme. On 19 November the ECB President, Mr. Trichet, sent a letter to Minister Lenihan threatening withdrawal of ECB funds in the absence of a formal bailout request. This was not well received by us. We knew that providing a fiscal framework under the EU-IMF programme gave us access to funds at a cost cheaper than was available on the markets at that time and into the future. It would provide in that respect funding certainty over a three-year period that therefore gave a better prospect to implement the plan that we were announcing. We knew that it would be difficult but the plan was robust and rigorous and we were confident that the growth prospects in it were achievable and could complete the journey begun in 2008 to try and turn the country around.

We had a Government meeting on Sunday, 21 November and made the decision to formally request EU-IMF assistance. Based on the progress that had been made in Dublin, we decided to formally enter talks. Efforts had been made from time to time to put our corporation tax rate on the agenda, which we refused to countenance. We were adamant that our own four-year national recovery plan, which was approved by the Government before its detail was shown to the

European authorities, would form the basis of any programme we would agree. We were determined to meet our responsibilities and build on the three budgets we had already introduced. Though now faced with a funding crisis, by the latter half of 2010 we had halted the severe contraction in the economy of the previous two years. We have greatly improved our competitive position *vis-à-vis* our EU partners and had seen the return to increased exports year on year for the first time since the crisis broke. The IMF and others were now predicting a return to growth for the Irish economy if the programme was implemented. When we tried to see if there could be a burden-sharing by unguaranteed senior bondholders during the subsequent discussions, the IMF personnel in London were sympathetic but when it was referred to a higher level within the IMF and the discussion took place with some of the larger member state contributors to the IMF, there was total opposition to it. Mr. Timothy Geithner, the US Treasury Secretary, was opposed because he claimed it would totally undermine market access for those European countries, including ourselves, that were in trouble. We also understand that the ECB were opposed to it for the same reason. Without the EU Commission, the ECB and the IMF all being in agreement, it was not possible to have the burden-sharing issue included in the programme. It was made clear to us that any attempt by us to burden share with senior bondholders would mean no programme for Ireland.

The Cabinet had adopted the four-year national recovery plan as policy. The troika representatives had sought sight of the programme before Cabinet considered and adopted it, so there was no question of that happening as far as I was concerned. We decided on the rate of adjustment over the four years in the best way possible for the country by the Irish Government. When the troika did get it after Cabinet approval, they agreed to adopt it as a central plank of the programme. It was, as we believed it to be, rigorous and realistic and designed to meet the economic challenges we faced. The EU-IMF programme was finalised and adopted by Government on 27 November 2010 and one additional year was allowed to reach the general 3% deficit threshold if required. On the banking side, the programme provided for an immediate €10 billion recapitalisation for the banks and they were required to deleverage. With the exception of Bank of Ireland, all financial institutions came into State ownership, deposits from Anglo and INBS were to be transferred to other banks and put into wind-down mode. Regarding the interest rate that would apply, there are two points I would make: the IMF part of the package was based on IMF rules and was a technical issue. In relation the EU side of the funding programme, we were faced with the fact that we were the first country into this EFSF-EFSM model of funding being provided by the EU and member states. The ECOFIN Council was anxious not to provide a rate which would make it attractive for countries whose risk premium on their sovereign bonds was so high that the rate available in the EU programme would prove attractive, while at the same time providing it at a rate that was affordable and less than the market price. Minister Lenihan negotiated ably and secured a 5.8% rate of interest with the proviso that if there were subsequent lower rates available, on the basis of equality of treatment we would avail of them. This subsequently proved to be the case.

The cost of this crisis has been borne by the people of Ireland. The banking crisis exacerbated a serious economic downturn, which caused job losses, emigration and a reduction in standard of living across all sections of our society. The Government took every remedial step it could to reduce the gap which opened up between what the Government was spending and what revenues were coming in. This resulted in a painful adjustment across all Government activity after more than a decade of prolonged sustained growth. These spending cuts and tax increases involved a total adjustment of over €15 billion in the four budgets we introduced, including the 2011 budget. It represented two thirds of the total required adjustment to bring our budget deficit below 3% as required by EU Stability and Growth Pact rules. We strove

strenuously in the design of the four budgets we produced to spread the adjustment as fairly as possible. The depth of the recession and the measures needed to address it meant that people who were previously out of the tax net came back into it and those who were in it had to pay more. While highly unpopular, these measures were absolutely necessary as part of the process of bringing order back to the public finances since 2008 to date. The Government has met the growth rate set out in the plan and continues with the necessary structural changes to rebalance the economy. The EU-IMF programme also provided the means and the Credit Institutions Act 2010 provided the legislative basis to implement the necessary restructuring and downsizing of a domestic banking system to a more sustainable model for the future. Thank you, Chairman, I am happy to answer questions.

**Chairman:** Thank you, Mr. Cowen, for your opening address this morning. Before I invite the lead questioners in, there's just one or two matters I would like to touch upon with you. One relates to an article in this morning's *The Irish Times* by Sarah Bardon that relates to the Department of Finance discussing methods of addressing financial difficulties of Anglo Irish Bank on the same day in September 2008 that the then Minister for Finance, yourself, Mr. Cowen, met Anglo officials at a social function. Are you aware of the article and would you care to comment upon it to the inquiry this morning?

**Mr. Brian Cowen:** It was brought to my attention this morning. I am just looking for a copy of it here, I don't recall... I don't know what it refers to, to be honest with you. If I could see the e-mail, what they're talking about, it would be helpful. I saw in the paper that was going to be raised with me here. If it is, I presume it would have been in the documents that was sent to me but it isn't. I am free to ... happy to answer any questions people have about it. My evidence here last week is the same today. I didn't discuss any issues of substance with Anglo Irish Bank officials then or subsequently. As I say, I don't know what this refers to. I was ... I think you were shown as well, if I can find it here, an e-mail.

**Chairman:** That's the e-mail that-----

**Mr. Brian Cowen:** Your counsel showed me something this morning. Have you got a copy of it there? It relates to ... it's an internal e-mail that refers to some issue regarding the State Guarantees Act 1954. That relates to, if you go back to the scoping paper relating to work that was being done in the domestic standing group regarding the question of the guarantee, making sure there were sufficient powers available if you were ever to do a guarantee, as a contingency planning measure. I see it there now. That's what that's about. It's not cc'ed to me, by the way, so I don't know, maybe it's not that one at all. That's the only one that's been shown to me.

**Chairman:** Okay.

**Mr. Brian Cowen:** So if anyone else has a cc'ed e-mail please show it to me and let me give you any explanation you want, but I don't know anything about it. What would happen normally, by the way, in relation to e-mails that come into my office, they'd be screened by my private secretary. I wouldn't be looking at e-mails coming into my office and if there was anything, they would take it out and leave it on my desk for reading material. But, as I said here last week, I don't recall although it may have been the case that some briefing material was given to me generally about Anglo Irish Bank on the basis that I was going down to a dinner there but I don't recollect anything about it to be honest. The important point is this is any event, a lot of this can be a distraction, the important point is the evidence I gave last week is truthful and accurate evidence. I didn't discuss anything with Anglo Irish Bank of any substance that day.

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**Chairman:** Thank you, Mr. Cowen, and I am sure any other matters in this, you can provide for clarification if needs be. Can I just bring up one issue before I invite in Deputy Doherty, Mr. Cowen? That is, when you took over from Mr. Ahern as Taoiseach, did you believe that the fundamentals of the Irish economy were sound and did any discussions take place with Mr. Ahern at that time with regard to potential concerns which may have been arising in the Irish banking sector?

**Mr. Brian Cowen:** No, the discussions ... I had a discussion with the then Taoiseach when I returned from being away on St. Patrick's Day to brief him on what had happened while I was away in terms of the calls I'd got and the fact I had referred Anglo Irish Bank down to the regulatory authorities in respect of this issue that they were talking about - an overhang of shares in relation to the Mr. Quinn issue. So obviously, when I came home, I updated the Taoiseach about that verbally and I don't recall anything after that, from that time on. There were changes, as you know, after that, but the ... that ... I do recall briefing him on that issue.

**Chairman:** But other than matters relating to the St. Patrick's Day massacre, as it was referred to, was there any other further discourse or conversation in that transitional period between yourself and Mr. Ahern with regard to concerns in the wider Irish banking market?

**Mr. Brian Cowen:** No, I don't believe there were, to be honest, and my ... at Cabinet, there may be some oral briefings, but not bilateral, one-to-one with him, no.

**Chairman:** Okay, I thank you. Deputy Pearse Doherty?

**Deputy Pearse Doherty:** Go raibh maith agat, a Chathoirligh. Fáilte arís an tUasal Cowen. Can I ask you, Mr. Cowen, when did you first become aware of ... that the wholesale borrowing situation presented a systemic risk? And how was this risk relayed to you and by whom was it relayed to? Can you tell the committee, like, what was the earliest point in 2008, or before, that this issue was discussed by Government Ministers or advisers?

**Mr. Brian Cowen:** Well, the wholesale funding thing, the wholesale funding of banks, as you know, was something that had been arising for a couple of decades and that was seen as a good thing in terms of accessing liquidity, because you're talking about broadening and deepening capital markets, markets from all over the world being available, globalisation, all this stuff, so that was seen as a good thing because the banks were no longer traditionally relying on a deposit base only for money for loans; they were able to get money from ... directly from the markets. It would have come up first of all, I think, in relation to the Northern Rock issue. The Northern Rock situation had a very ... it had a ... a problem had arisen and they had a sort of ... a banking model that had ... related to that and we were, sort of, watching how that was working out and we, sort of, looked at the ELA aspects of that and how that had unforeseen consequences.

**Deputy Pearse Doherty:** Okay.

**Mr. Brian Cowen:** So, it wasn't ... well, I'll just make the point, Deputy-----

**Deputy Pearse Doherty:** Yes.

**Mr. Brian Cowen:** -----that model, if you like, wasn't seen as providing a systemic risk to the system at that point, do you know what I mean? There wasn't ... you were still looking at institution-specific solutions if any issues came up and all the contingency planing was on that basis. I think the trigger ... even if you look at July and ... June, July and August, sort of, period,

if you want to bring it up that far, I mean, when you look at ... when the guarantee was ... came in, we got funding levels in the Irish system back to what were June and July levels, so even in June and July, the levels of liquidity would have been regarded as ... whilst there was a tightening, generally speaking, since this thing had started, you know ... I've given figures there that show that the amount of liquidity-----

**Deputy Pearse Doherty:** I think the key question ... I appreciate that. The key question is: when did you become aware that wholesale borrowings situation presented as a systemic risk, or did you ever become aware that it was a systemic risk?

**Mr. Brian Cowen:** Well, in relation to the wholesale borrowings of ... what you're talking about there is ... I mean, September, if you like, was a trigger. You were, sort of, managing the situation up to then. September was a trigger and when we started bringing in outside experts, like PwC, they have started to talk about concentration then as being another feature of this model.

**Deputy Pearse Doherty:** Mr. Cowen, evidence given by Kevin Cardiff states that a prominent business person, in the form of Dermot Desmond, contacted John Hurley, the Governor of the Central Bank, to put the case for a guarantee prior to the formal announcement on 30 September 2008. Can you confirm if you received any contact, or contacts, of a similar nature and, if so, from whom?

**Mr. Brian Cowen:** No, I don't recall getting any contacts of that nature from anybody. When I heard that evidence, I presumed that, you know, this was John Hurley as the Governor out there checking with banks and checking with whoever knows something about financial markets as to what the situation was and what ... but I always found, when I dealt with John Hurley, you got the Central Bank position, whatever their synthesised position was, but I never ... he never told me, for example, who he was talking to beyond what the Central Bank position was.

**Deputy Pearse Doherty:** And nobody ever approached you, or nobody ever suggested to you, outside the Department of Finance officials and the Central Bank, the idea or the need to bring in a guarantee of some form or other?

**Mr. Brian Cowen:** That came up when the ... well, that came to the fore when you had the ... if you had a system-wide problem and right up to the ... even the Governor himself was saying that he didn't see that as an issue until late in the day in terms of the system-wide threat to the economy. But, to answer your question directly, I have no recollection of anyone coming to me, or anyone on anyone's behalf, coming to me, saying, "You should have ... you know, we think a guarantee is a solution." I've never discussed that with anyone in any of the banks at any time.

**Deputy Pearse Doherty:** Okay. And, like, the national newspapers were running columns and pieces in relation to a guarantee, in the form of David McWilliams and so on, and nobody, as you'd be out and about, ever raised the issue about the guarantee? No member of the public ever raised-----

**Mr. Brian Cowen:** No.

**Deputy Pearse Doherty:** No? Okay.

**Mr. Brian Cowen:** No, all the ... all the banking fraternity, if you like, or all of that financial



community were dealing with the Department of Finance.

**Deputy Pearse Doherty:** All right. Okay, can I ask you when did you become ... so that's from external, outside of the agencies, Department of Finance and the Central Bank, but now, internally, when did you become first aware or ... of a discussion in relation to possibly bringing forward a guarantee and making the preparations for such?

**Mr. Brian Cowen:** Well, I know that the domestic standing group were looking at, for example, when I was talking about the 1954 Act and looking at power, did the Minister have sufficient powers to do this, that or the other. And one of the things that came out of that was that you wouldn't use the 1954 State Guarantee Act for a systemic guarantee, if that were ever required; that you'd provide legislation specific to what it is you were doing and you'd incorporate that power into the Act and the Dáil would vote it up or down, whatever. So, that was a ... if you like, part of the ... where they were looking at legal issues, what ... what ... have we enough powers to do whatever we want to do in any given circumstance? Similarly, they were preparing legislation, as you know, for State protection. Similarly, they were looking at asking the ... would there be a question of the NPRF money ever being used, if needed, as a, sort of, a fighting fund. The NTMA were being asked to get involved and put their tuppence worth into the arguments.

**Deputy Pearse Doherty:** We have ... you mentioned the nationalisation bill, which has a head under it that would ... allowed for guarantee, so that would have been around June and the e-mail that you referred to in relation to the conversation about bringing in specific legislation for a guarantee, the e-mail that we have as a committee is dated 24 April 2008. So, would that be about the earliest possible time that you, as Minister for Finance, would have been aware of the possibility, or the potential, or the need to look at legislation that could allow for a Government guarantee?

**Mr. Brian Cowen:** Well, I mean, it has been pointed out to me the last time correctly ... I mean the scoping paper was pretty comprehensive, the original scoping paper, and it looked at all of these things. But it was doing various things at different rates of priority, if you know what I mean. They were looking at ... it seems to me, looking at all the documentation, and based on the ... what we were hearing back is that you're looking at institution-specific solutions. You weren't looking at systemic solutions for a long time. It's only when the trigger comes in, in September, and you have a ... it's not just an easing or a tightening of liquidity; it's an actual, big event happens, like the Lehman's thing, which happened. And that really, sort of, put everything under stress very quickly, that you start realising they're looking at options ... they're going to have to look at all options. And then Merrill Lynch, who were employed on 24 September, come with a paper on 26 September and that started to look at strategic choices for the banking system as a whole. It's coming in that ... that's the way it's coming.

**Deputy Pearse Doherty:** I understand how it's coming. My question is ... is just what is the earliest stage that you were aware that there was a need to start to prepare legislation that allowed for the potential of a guarantee to bring forward? Was it when this e-mail was circulated that you referred to, which was April, or was it earlier?

**Mr. Brian Cowen:** No, it wouldn't be. I wasn't ... I was, sort of ... I had no problem with whatever preparations they had to do and whatever options, let them be at it. I wasn't ... so to give you ... to answer your question, I was aware of what the multitude of solutions might be very early on, but I was, sort of, saying to myself, "We have an institution-specific analysis here, the whole way up through summer and into the autumn", so, you know, I was aware that

... you know, I remember ... I was a young TD in 1986 when a Government, at the request of, I think, it was AIB decided to nationalise ICI and that was ... you know, so that was ... I was aware that things can happen quite quickly and people looking for assurances and getting guarantees or whatever, nationalisations, all this sort of stuff. But, to answer your question, I wasn't going around in the back of my head saying, "Oh, can't wait until I bring in a guarantee here." You know?

**Deputy Pearse Doherty:** I would appreciate if you would answer the question-----

**Mr. Brian Cowen:** I'm answering as best I can and recollecting-----

**Deputy Pearse Doherty:** No, no-----

**Mr. Brian Cowen:** -----as best I can.

**Deputy Pearse Doherty:** No, and I appreciate that. But the question specifically is, when is the first time that you became aware that there was a need to prepare legislation that would allow for the potential State guarantee of the institutions?

**Mr. Brian Cowen:** April-May.

**Deputy Pearse Doherty:** April-May. Appreciate that. Can I ask you, in your state ... you refer in your statement to consulting with economic consultant Alan Gray. Did you consult anybody else in reaching your conclusion on the guarantee options, even in the days beforehand? And, for each such contact, what were the principal elements of their advice? And specifically, can I ask you did you consult with David Doyle or John Hurley? And, if so, please elaborate on the advice received. So who, in total, did you consult with in relation to the guarantee options?

**Mr. Brian Cowen:** Regarding the guarantee options, Alan Gray was the only person outside of the system that I talked to. And I explained before here that the reason why it would be appropriate to talk to him, apart from the fact that he was a guy whose opinions I respected, he was also a member of the Central Bank. So he was, if you like, you know, subject to the confidentiality and other ethical standards you'd expect from a member of the board of that sensitivity. So it wasn't inappropriate, if you like, to talk to him and it was just to get an external view. When your in the midst of a crisis like this, you like to think "Is there someone outside who I can ring just to see are we ... are we in the right ballpark at all?" Secondly, there was no one else there other than him who I spoke to about this. As regards David Doyle and John Hurley, obviously I was in touch with the Governor and the Department of Finance Secretary General from time to time as this thing was intensifying. Over that weekend there was a number of meetings which I attended at which they would be in attendance and they would give the view of their institutions or whatever. And Mr. Cardiff would be there obviously and Mr. Lenihan would be there. So, in that context, yes, talking to them, but not ... they hadn't ... I mean, when, when we came to the actual night itself, you know, I hadn't my mind made up what we were going to do. I didn't know what we were going to do. I mean, anyone that would claim they'd know what they were going to do before that meeting would be a pretty ... a pretty clever guy. I didn't. I wanted to be briefed, I wanted a discussion, I wanted us to look at all the angles, look at all the possibilities. But I did, as I've said in my statement ... in an emergency situation, I know the type of man that John Hurley is, or was, as a public servant and how he articulated himself. He was a man of very moderate language and not prone to exaggeration and it was very clear to me, listening to him as to what went on that day, that we had a very, very serious situation here.

**Deputy Pearse Doherty:** Okay. Did ... when you phoned Alan Gray, that evening, did he

mention to you that Seánie FitzPatrick and David Drumm had called to his offices unsolicited a couple of hours beforehand?

**Mr. Brian Cowen:** No, he did not.

**Deputy Pearse Doherty:** Okay. Kevin Cardiff, Mr. Cowen, stated in his testimony that a one-page draft guarantee document was produced by the banks on the night. Did you receive a copy of that draft guarantee from the banks and what eventually was done with the copy circulated? Can you outline to the committee the contents of this document and explain to us why a copy of this document doesn't appear to have survived the meeting?

**Mr. Brian Cowen:** Yes, well my recollection of this relates to something similar to what Kevin Cardiff was ... but not quite, in the sense that, I do recall ... it's my belief ... when Kevin Cardiff came to me, for example ... working back, if you like, trying to figure out this and be helpful to the committee, when Kevin Cardiff came to me and said that there was ... he felt this guarantee draft was too wide, obviously that had come from the bank, it didn't come from the Department of Finance because the Department of Finance hadn't drafted it at that stage. So that obviously is a draft from a bank, in my opinion. Which bank, I don't know. But, fair enough, if they wanted to come and have a draft, that's fine. But the issue is this, that they will have worked off that as a sort of a template but on the basis that we were going to have what we said we were going to have, which was ... it was an extensive guarantee, but it certainly wasn't to be any more extensive than the extent we were going, which was a fair bit. And as I say, Kevin Car ... Kevin Cardiff made that point to me and I said, "Well, you stick to what you ... you don't agree ... you don't ... draft this according as we want it." Now, that was that. So I don't recall that being a very big document. It was, you know, maybe four or five lines maybe, from memory now.

**Deputy Pearse Doherty:** Right, okay.

**Mr. Brian Cowen:** And I didn't have a copy of it, it was sort of passed over and they went out then, if you like, to work out ... to work up what ... what we were sort of going to do. And Kevin came back to me with ... not a draft but he was saying, "Look, I think this is too wide", and I said, "Go back and do it right and to your satisfaction." And eventually he came back with what he believed was an accurate reflection of the political decision that we were making. And I don't ... as regards where the copies of it are, I can't ... I'm sorry. Sometimes when there's reiterations ... iterations of things going around, you end up with the final document and all the previous drafts are, you know, they're not part of the process, they're put away or they're ... tore up or whatever. You end up with the final iteration. That's only speculation on my part, but I don't have ... I didn't see anything beyond that. It was this sort of four or five-line thing, you know, based on what you'd be including. Kevin Cardiff not happy with that, going back out and coming in with something that was in line with what we wanted and that's fair enough then, that's it.

There's a separate issue then, I think, that maybe some ... causing some confusion. I might come it to, as well, at some stage and that is ... after we made a decision ... a Government decision was needed to be made late that night and we made it incorporeally. Part of that decision was that obviously we'd have to ... we would issue a statement to the markets before seven o'clock. And arising out of that decision then, you would go off and prepare a statement for the next day in line with the decision. So, I think, there's two things here, there's this-----

**Deputy Pearse Doherty:** That's the Department's statement on the following day?

**Mr. Brian Cowen:** Yes, there's this thing about the banks ... what should be included in the guarantee, which, as I say, was, from my memory, a single-page document with a few lines in it, but then there's a separate thing which came later and sometimes, I think, in the conversations things are being-----

**Deputy Pearse Doherty:** Okay. Okay, I appreciate that clarification. Mr. Cowen, I want to go back just a couple of months and I'd like to refer to the Druids Glen golf outing on 23 July 2008 which has been a topic of debate here in the Dáil and public discussion. And it included, at various times during the day, individuals such as Alan Gray, a director of the Central bank, Seánie FitzPatrick of Anglo Irish Bank, Fintan Drury, a former director of Anglo Irish Bank, and Gary McGann, a director of Anglo Irish Bank. Can I ... can I ask you ... you played golf with Seánie FitzPatrick and Fintan Drury. Was it just the three of you that were out on the golf course that day?

**Mr. Brian Cowen:** Yes.

**Deputy Pearse Doherty:** Yes?

**Mr. Brian Cowen:** Yes, sorry.

**Deputy Pearse Doherty:** Yes, okay. You went afterwards ... with dinner and were joined by the other two, including your driver, is that correct?

**Mr. Brian Cowen:** Yes.

**Deputy Pearse Doherty:** Okay. Can I ask you, how did this event come about?

**Mr. Brian Cowen:** Well how it came about was that we were coming towards the end of this ... Dáil term in July - or whenever the Dáil summer term was finishing up - and we had already, as you know, brought forward an adjustment in the ... Brian Lenihan, God have mercy on him, had brought forward a memo for Government about ... because of the slippage that was coming and the figures, the need to reduce expenditure and we came up with €464 million, I think, which would be a billion in a full year. But it was simply an immediate reaction by Government to ... a Department of Finance recommendation that we needed to start paring back because the figures were showing, that early in the year, that there was going to be a discrepancy. It was hard to indicate what the end-year position would be but certainly, based on what it was then, you were looking at that sort of correction as being appropriate for that time. I'm not saying that it was going to solve all the problem but ... at that time. So it was clear, therefore, that the Government ... that the economy was starting to slow down. And I was talking to Fintan Drury one day and I said to him:

Look, I'm going away, I'm going to try and get a couple of weeks off. I haven't had a break in a long time. But before I go away, could we get a few people together? I just want to talk about people about how they see the economy - how they see things going - because we're seeing here a slowdown.

And I wanted to see was there things ... was there a ...you know, was the assessment right. It was just, again, to get an outside view. And he suggested that he'd get a few people together. I didn't suggest to him "Get this, this, this and this." He said, "I'll get a few people together", and that happened and we had that conversation, as you're saying. And he said to me, "Look ...". It was on a Monday, I think it was, in the week, I think, and I said that ... he said, "Yes, look, do you want to play a game of golf while you're at it?" and I said, "Fair enough, I haven't

had a game of golf in a long time.” So-----

**Deputy Pearse Doherty:** Before you landed there, did you know that it was mainly Anglo individuals, either directors or the head of Anglo that was going to be there.

**Mr. Brian Cowen:** To be honest, it didn't-----

**Deputy Pearse Doherty:** The only-----

**Mr. Brian Cowen:** Yes.

**Deputy Pearse Doherty:** -----type of person that wasn't involved in Anglo was somebody in the Central Bank and the driver who drove you to the venue.

**Mr. Brian Cowen:** To be honest with you now, it didn't occur to me really much ... what was ... he said he'd get a few people together, and the people he knew were ... like, Gary McGann I knew anyway. I knew Gary McGann from the time he was chief executive in Aer Lingus. He was a very reputable businessman ... good businessman ... was with Smurfit Kappa afterwards up until recently. Fintan Drury himself - whom I knew for years - he said he'd get Seán FitzPatrick to attend. I mean, at that stage, that was fair enough. I didn't know the man very well but I had met him a few times ... a couple of times socially maybe in the past. Who else was there? And Alan Gray came because I said I'd get Alan Gray to come because he usually gives a good outline of where things are at. And that was basically the context.

**Deputy Pearse Doherty:** And, given the fact that we've got three individuals, former directors ... directors of Anglo Irish Bank and the head, in the form of Seán FitzPatrick, and a member of the Central Bank, it's been put to you that the narrative that you put in the Dáil stretched credibility, that issues around banking were not discussed. How do you respond to those type of accusations and, maybe, can you elaborate ... can you confirm to this investigation-----

**Mr. Brian Cowen:** No, I don't-----

**Deputy Pearse Doherty:** -----that no discussion on banking took place-----

**Mr. Brian Cowen:** I can assure-----

**Deputy Pearse Doherty:** -----with these directors-----

**Mr. Brian Cowen:** Yes.

**Deputy Pearse Doherty:** -----heads of bank and the former ... or, director of the Central Bank?

**Mr. Brian Cowen:** I don't believe it should stretch credibility. You know, it's the truth. You know, there's nothing ... there's nothing more in it than that. If people want to be ... think up a lot of conspiracy theories, I can't stop them, you know, that's the way people are ... is that people want to do that, but I'm here under oath telling the truth. It was about economic issues - it was nothing to do with Anglo Irish Bank at all.

**Deputy Pearse Doherty:** Was there-----

**Mr. Brian Cowen:** And to ... just to ... you're talking about ... stretch credibility, I mean, it is ... it is hard to believe the coincidences that occurred. I mean, I remember being at the Druids

Glen thing, a colleague of your own came out to talk to me. There was a function there ... a wedding function going on. We had a chat and he asked me would I like to join him for a few minutes. I said, "Fine, no problem." Went in and we had a chat. I might have even talked to you, maybe, for a couple of minutes, met others, so, I mean, that's ... that's what it was. I mean, if I was ... there's nothing ... it was out in the open in a foyer of a Druids Glen golf club in full public view. I mean, if people want to have conspiracy theories about things, I can't ... I can't help them with that sort of thinking, but there's just nothing in it. That's the point.

**Deputy Pearse Doherty:** No, that's fair enough.

**Mr. Brian Cowen:** And I can ... that's all I can say. I can say that-----

**Deputy Pearse Doherty:** But can I ask you-----

**Mr. Brian Cowen:** -----as God is my witness, that's the truth.

**Deputy Pearse Doherty:** -----did you discuss any banking issue? So you discussed the economy. This is in July. The major issue that's happening in Ireland, and correct me if I'm wrong here, is a massive financial crisis where we know that the Government are sanctioning legislation to potentially guarantee banks, nationalise banks. There is an international financial crisis. We have three ... or the ... a director of the Central Bank, directors of one of the main institutions here, the head of one of the main institutions, and nothing at all in relation to banking was discussed.

**Mr. Brian Cowen:** I wasn't discussing banking. I was discussing the economy.

**Deputy Pearse Doherty:** Okay.

**Mr. Brian Cowen:** And, you know, Alan Gray gave a sort of an overall assessment of how he saw things. I was trying to think up were there ideas out there how we could help, is there things we can do to try and ... you know, unemployment was starting to go on the rise, were there ideas out there that we could try and help to deal with that, and that's what I was doing. It was a sort of an informal get together. I didn't dictate the company and I'd no problem with the company that was there at that point in time. I'd no reason to think otherwise, and it was organised by Fintan, as I've said, and it was ... that ... that was what it was about, not about-----

**Deputy Pearse Doherty:** Mr. Cowen-----

**Mr. Brian Cowen:** -----anything else.

**Deputy Pearse Doherty:** -----you've been accused of overruling Brian Lenihan on the night of the guarantee. This was said by Governor Honohan in a book on Brian Lenihan and repeated by the Governor when he gave evidence to this committee on 15 January 2015. What do you say to the accusations that you overruled Brian Lenihan on the night of the guarantee and that Brian Lenihan informed the Governor of that?

**Mr. Brian Cowen:** Again, I don't think it's an accusation. I think it's ... if Professor Honohan says that Brian said ... characterised it in that way to him at some time later, maybe a good time later, well I'm not going to question what Professor Honohan said. If that's ... if he said Brian said that to him, I accept that's what he said to him but I've explained in my statement the context of that when I was there. It wasn't a question of me dictating ... overruling or anything. The two of us were trying to grapple with a very serious problem. There were a number of issues that were being narrowed down to a couple of issues and one of them was whether we

would nationalise or not. Now, there's pros and cons with that decision. It's not saying ... you can't say one is 100% right and one is 100% wrong. You're trying to work it out and what I was saying was ... and, in fairness to him, as Kevin Cardiff put it, that he spoke to Brian about it subsequently, probably sooner than when he spoke to Mr. Honohan about it, he said he felt that we needed to come to a common position on it, which was true, we do ... we did need to come to a common position on it. And I ... I said to him, "Look, you know, I'm not saying ... I'm not ruling out the idea that at some stage in the future we might have to nationalise a bank - it's not that I have an ideological problem here with nationalising a bank." That's not ... and, in fact, when it came to having to nationalise the bank, we nationalised the bank. I'd no objection to doing that once we had gone in and done a sort of a ... we weren't doing it off ... you know, they were doing it on the basis that this was what we now had to do. It was a last resort - there was no other option. Because before ... so that's the first point. The second ... so, you know, he's reassured on that point, obviously.

The second point is that I was making the case that a nationalisation, you know, as we know, when you do nationalise a bank, it doesn't ... it doesn't ... it's not the panacea, it doesn't solve all the problems. You take on all the assets and liabilities onto the State's book immediately. Now, I am aware, of course, that the other option, which takes on a contingent liability, is also very high. But my view was that a temporary time-limited support mechanism was better than an open-ended support mechanism for one of them and a time-limited support for the rest because, what that might say is ... the market ... I mean, remember now, this is a volatile ... very volatile situation in the markets. It's like ... you're talking about Wall Street 1929 stuff, no one knows where anything is going. I'd say, it could be ... it could be interpreted ... it may or may not be, but it could be interpreted that you've identified something and it's going to spread further and you're going to have more nationalisation. So, really, it's ... it's ... it's ... you know, I'm not suggesting I'm correct or right or any more correct or right than anyone else. It was a political judgment that we were trying to come to as to what was the best thing to do in the circumstances.

**Chairman:** Final question, Deputy.

**Deputy Pearse Doherty:** Finally, can I ask you again, it's just the earliest date, the earliest point in time that you heard the suggestion that the banks needed additional capital and that capital might come from the State.

**Mr. Brian Cowen:** Well, the capital adequacy issue only arose later on when PwC came back, having looked at all the six banks, and said the markets ... the markets are now demanding, quite apart from anything else, that there be a greater capital ratio in the banks than would have been traditionally the case before the crisis began. And, remember, this liquidity problem was now 14 months old. It was longer than any liquidity problem that had arisen since the Second World War. So that when the thing started, there was a view that, you know, this might last five months, it might last three months, it might last six months, and as things were getting ... going on longer and then you had the second round effects of the sub-prime crisis in America and how that was affecting that banking system, suddenly you had a real problem and you had the globalisation of risk all over the place, then you had more problems. And the fact of the matter is that, unfortunately, there wasn't a clear understanding anywhere, as far as I can see, anywhere of what the cross-border risks of all this were and where it would end up. And when you're left then ... but, say, like, you're on your own, it's ... there isn't an EU competence in this area at that point in time. There isn't a single supervisory mechanism. You have to deal with it. You have your people around you and you're facing this.

**Deputy Pearse Doherty:** Just a very quick ... I was asking just for the timeframe, the earliest suggestion that you heard ... because there was a number of reports-----

**Chairman:** Just the date.

**Mr. Brian Cowen:** Sorry, I said the PwC report came back in November. I mean, the view ... the view right up to September was that Irish banks were well capitalised and that if there ... and that there was a sufficient buffer that if there were some increased impairments coming down the line, that they would have enough money. Now, that was a mistaken analysis but that was the analysis we had and we had to go with the analysis that was in front of us at the time, the information that was available to us at the time and, you know, things developed ... worst-case scenarios, even stress testing that was being done - and there was stress testing being done by the Central bank and the Financial Regulator - wasn't envisaging the worst-case scenario that we ended up with, and I don't think anyone was.

**Chairman:** Mr. Cowen, can I just clarify one thing before I bring in Senator O'Keeffe. The timeline of a two-year guarantee, where did that originate from and whose idea was it?

**Mr. Brian Cowen:** That was a discussion that took place between our ... between the ... those who were there at the meeting originally. It was an issue, I think, that would have been discussed when the banks were there and it was an issue that was decided upon ultimately by just ourselves - the State actors. I was always, I was very clear in my mind that whilst I recognised the views of everybody, the decisions that would be taken would be taken by the appropriate people, not people who were involved in the industry itself. They were entitled to come and give their view, that's no problem, but at the end of the day we had to make our own mind up. So, the question ... it was either, the question was whether it would be a one-year or a two-year. And the one-year, the problem with the one-year thing was that you'd have, would it have the effect, because if you're saying within 12 months this guarantee is up, it mightn't gain traction in the markets at all. It would also have the possibility of a funding cliff arising within 12 months again. The two-year, how long would this go on for, it already on for 14 months so, the view was that two years seemed to be, in the judgment of those that were there, the best guesstimate they could have of having a credible but time-limited guarantee that would do what was needed to be done and at the same time not be there for ever.

**Chairman:** Thank you, Mr. Cowen. Senator O'Keeffe.

**Senator Susan O'Keeffe:** Thank you, Chair. Mr. Cowen, I have a couple of documents that are Department of Finance documents, which I appreciate with all the books that are going around, that you mightn't have seen but if ... if-----

**Mr. Brian Cowen:** Why? Why haven't I seen them?

**Senator Susan O'Keeffe:** Well no, if there's a difficulty you don't have to respond to them, if you see what I mean. They're all, they're all-----

**Mr. Brian Cowen:** You should have sent them on to me, Deputy, and I would have had a look at them for you, and I could answer your question, no problem.

**Senator Susan O'Keeffe:** And that's ... anyway. Why, Mr. Cowen, is there no ... proper full note of the night of the guarantee?

**Mr. Brian Cowen:** Well, I think two or three things I want to say about that. First of all, I



chaired the meeting-----

**Chairman:** If you're referring to core documents now, we'll need them to be referenced.

**Mr. Brian Cowen:** There is no documents.

**Senator Susan O'Keeffe:** There's no document.

**Mr. Brian Cowen:** I'd love if she had one actually, Deputy, Chairman.

**Chairman:** Senator O'Keeffe.

**Mr. Brian Cowen:** No, sorry, to make the serious point, I mean, I was the chair of the meeting and I suppose I had to take responsibility for that really, at the end of the day, even though I didn't set about it to happen that way, but I was the chairman. Secondly ... a couple of things happened, the, the, the Secretary General of the Government wasn't there at the start of the meeting. He was, he was preparing for Cabinet the next ... there are various things he has to do and he joined the meeting, you know, it was on a while but not that long, it was on a while before he came in. And he was the only other one from the Department of the Taoiseach there apart from Finance and Central Bank, and you know, the other people. So when he came in I said, "Listen up here this is serious stuff" in other ... which to say, contribute here, you know, I value his input. Third point is that when, when there's ... if you have a Cabinet, I know this wasn't a Cabinet sub-committee meeting but it was, you know, something of ... akin to it, if you like. You normally have a free-flowing discussion and you actually ... note the decision so, so there may have been a bit of thinking on that lines. But I personally would have liked, I'm sorry there isn't a record, let me say that, I personally would liked there to have been a record. When it wasn't, when I ... what happened then that night, when I got two or three hours' sleep, we had to come back, we were in the Dáil, I'd a Cabinet meeting by the following evening. I mean, I, when there wasn't a contemporaneous note I then, what then happened was, the Attorney General sent me ... advices, if you like, which captures pretty well the argumentation. That was to me within, it might be a letter dated the 30th or 1 October. Now I know that's a privileged document, but I understand that, you know, you'd be able to ask questions of the Attorney General, even though it's a privileged document. So that, that might be a way of helping the committee. I know it's ... you're having to reconstruct the thing a bit, and you've heard different versions because people's recollections are different, genuinely, genuinely not thinking of one thing and not another. But I have to say, you know, and I have to take responsibility, I am sorry that there isn't an accurate, full note of that meeting. It would be to the protection of all of us, if there were.

**Senator Susan O'Keeffe:** This is document DOF03151. Now, Mr. Cowen, I know you don't have this document and I'm sorry about that, but this is a briefing note that was given to Brian Lenihan as he came into office, right. So I suspect that everything that's in it is material that you already know, all right. So, effectively ... it effectively discusses some of the dilemmas facing Mr. Lenihan, "we are now factoring in a €2 billion shortfall in taxes but have not publicised this as yet". This represents a significant worsening of the position for this year, with serious consequential impacts for next year. Again, that's something you would have known.

**Chairman:** Just deal with the document first now, Senator O'Keeffe, Mr. Cowen hasn't seen that.

**Mr. Brian Cowen:** That's okay, it's okay.

**Chairman:** If he's okay with dealing with it, that's fine. Senator O'Keeffe.

**Senator Susan O'Keeffe:** And there's another document then that went with that, there were three or four documents that went together. "Summary of key information re Irish banks", this is DOF03372, "Virtual cessation of normal wholesale lending activity, where all banks have in recent years sourced a growing share of their funding." And then it gives detail of the various banks:

In summary ... the concerns that initially lead to credit markets seizing up last August are persisting. Major financial institutions continue to disclose major write downs.

Now when you left, when you were here last week, in your own evidence you said when you left the Department, you say, you had a co-ordination mechanism in place at the Department but you said there wasn't a crisis at this point. However, these are the documents that were handed to Mr. Lenihan. Are you saying therefore that there wasn't, those, those observations and those documents did not amount to a crisis?

**Mr. Brian Cowen:** No, we weren't. The crisis that triggered, the crisis that triggered was triggered in September. It was a totally different problem in September. From the previous August, right up to, for nearly 12 months we were, we were managing the situation, it wasn't ... I'm not saying there was no problems but you're managing it. There's liquidity issues there, you're not ignoring it, you're getting contingencies ready, you're saying if something goes wrong here we're ... we have things in place. I'm not saying there isn't ... you know, so crisis is something, you know, I don't use it easily. A crisis is when your, when your State ... you're told that unless you do something big, something's going to happen.

**Senator Susan O'Keeffe:** Are you saying that you were managing them well?

**Mr. Brian Cowen:** No, let me, let me explain the situation. What was happening during that time as well, is there's a Central Bank was organising the banks to make sure they had eligible collateral. I mean they may, they might have a whole range of mortgages and if they put them in as an asset-based security or whatever, you know, get an asset-covered security, get all that sort of technical work done, they would be able to get eligible collateral. So what was happening was, the ECB by this time, from September or October of '07, had got involved from the time I think the first problem arose in the Paribas Bank, of providing what they're called long-term refinancing operations. And what that was doing was, providing the liquidity that was being ... supplementing, if you like, the tightening liquidity arrangements that banks were contending with in the new market situation had develop. So, the Central Bank was actively involved in making sure that Irish banks had access to that collateral and making sure that their collateral was in such a way, organised in such a way that they could get that liquidity assistance. And that was what was happening the whole way up, and I was making the point to you that, you know, when you consider, after the guarantee, which had the short-term benefit of stabilising the situation and bringing money back into the system, which was critical at the time - without that, I don't know where we'd have ended up - but getting money back into the system, back to levels that were there in June and July, and we'd ... so do you understand me, June and July, we weren't in bad shape in October in that sense. And we were back to June and July levels, which wasn't bad. In the context of what was happening, I'm not saying it was normal but it wasn't the crisis, if you know what I mean.

**Senator Susan O'Keeffe:** Okay, and so, given that information and the fact that bank share prices were falling, did they all point to an impending bank problem?

**Mr. Brian Cowen:** All banks, all banks ... I mean, all shares in banks were falling and ours, it's true, was falling higher than maybe the UK ones or US ones ... but, the point I'd make there is Anglo was falling even a bit more than that again. And what was being assessed as the problem there was, the overhang situation of the Quinn share was having an impact on confidence in that respect. So, if you like there were, there were reasons being given for these. I'm not saying you're welcoming the fact that share price is dropping but it was, it was a reflection of market sentiment generally ... of sentiment towards Ireland generally was disimproving plus these, this specific issue that had arisen in March, where people ... there was evidence of short selling going on. So people were buying share, buying ... making Mr. Quinn put more funds in to avoid the loss appearing and then they making money afterwards. So there was a lot of manipulation going on in addition to market sentiment, that would explain some of the drop in the bank share.

**Senator Susan O'Keeffe:** And so on that subject, it's DOF, I think it's the same, 03372-009. I think it's the same document that we've just been looking at. This was part of the documentation that was given to Mr. Lenihan at his handover. Therefore, I'm assuming it was information you already had; you just talked about the short-selling. It was marked, "Highly confidential" and it was a note in relation to Seán Quinn and the Quinn Group and it talked about Seán Quinn being a major investor in Anglo Irish Bank, had entered into extensive contracts for difference and so on. It is understood that Seán Quinn is very significantly exposed in relation to CFDs and that he has transferred significant funds from within the Quinn Group, particularly the insurance component, to meet margin calls. And it goes on to say: "The Financial Regulator is actively pursuing the resolution of these funding issues but if not quickly resolved, there is a risk of an event of default with consequent ensuing publicity with potential for far wider implications."

So Mr. Cowen, I'm asking whether or not that was information that you had, that you knew about, and what were you doing at that time, given the seriousness of this document here?

**Mr. Brian Cowen:** Well, I said in previous evidence last week that when that ... that was brought to my attention probably just before I went away on the St. Patrick's thing and ... from the Central Bank Governor that there were rumours to that effect. It was confirmed to me by the CEO at the time ... sorry, chairman, I think, at the time, Mr. FitzPatrick in a phone call to me. And I had spoken to the Central Bank Governor before I took that call and spoke to him after I took that call. And I had referred Mr. FitzPatrick and the Anglo people straight down to the ... I said there should be a meeting this week about that. I think it was Easter week. It might even have been Good Friday that that meeting took place. And that matter was now being taken up by the regulatory authorities who were the lawful people to deal with this.

**Senator Susan O'Keeffe:** This is now May when this document was handed to Mr. Lenihan. I assume it was on his desk when he arrived into the Department,. It was written obviously by your officials and I'm asking how were you ... how far further had you been informed at this point? Were you aware of what was happening?

**Mr. Brian Cowen:** It was still with the regulatory authorities as I recall at that point.

**Senator Susan O'Keeffe:** If it was being given to Mr. Lenihan, why was it not being given to you?

**Mr. Brian Cowen:** What do you mean? Sure it had been with me-----

**Senator Susan O'Keeffe:** Well, if this information was being passed to Mr. Lenihan, surely

it was also passed to you.

**Mr. Brian Cowen:** No. Well, that's not ... I'll just clarify, yes. I'll just explain to you. The briefing note that would be done up for Brian Lenihan was done up for him as the new Minister coming in by the officials. They wouldn't be showing it to me. But that's beside the point. It doesn't matter whether they showed it to me or not. I'm not suggesting that's important-----

**Senator Susan O'Keeffe:** But the information that was in it, rather than the note-----

**Mr. Brian Cowen:** I'm making the point about the information. The information would be ... referring this to the regulatory authority was the right thing to do because they are the people who have the statutory responsibility to deal with it.

**Senator Susan O'Keeffe:** I'm not arguing that at all, I'm just saying-----

**Mr. Brian Cowen:** So what are you arguing about?

**Senator Susan O'Keeffe:** The document says: "If not quickly resolved, there is a risk of an event of default with consequent ensuing publicity with potential for far wider implications"

**Mr. Brian Cowen:** Yes.

**Senator Susan O'Keeffe:** And I'm saying, were you aware that that was the situation in May 2008 as you became Taoiseach, that this contract for difference aspect, in among all the other aspects, was that serious?

**Mr. Brian Cowen:** Oh yes. I mean everyone knew there was a serious situation developing there and the regulator was going to have to sort it out and deal with it, and that's what they were ... in other words-----

**Senator Susan O'Keeffe:** And did the regulator sort it out?

**Mr. Brian Cowen:** You don't politically interfere in a regulatory situation. I've made this point.

**Senator Susan O'Keeffe:** Did the regulator sort it out?

**Mr. Brian Cowen:** Well, he told the Minister for Finance later on that it was sorted out. And you'll recall that they were saying that they were getting other people to buy shares in the bank. And I don't know can I go any further than that with what's going on at the moment.

**Senator Susan O'Keeffe:** No, I appreciate that there are limits-----

**Mr. Brian Cowen:** So that's ... I mean that's on record. Brian has stated what happened there.

**Senator Susan O'Keeffe:** When ... at a meeting on 24 September, I believe ... we're now in September, Mr. Cowen. This was just before you flew to New York, I think, to speak to the United Nations. You refer in your own statement to PwC's "hopelessly optimistic analysis of the loan books and capital positions of the six Irish banks covered by the guarantee". And I'm wondering if you recall whether you expressed concerns about this information, about their reliance on management information. Do you recall if you expressed concerns or did anybody else at that meeting express concern?

**Mr. Brian Cowen:** Well, the ... and if I'm referring to that now it's with the benefit of looking back now from this vantage point. But the point I would make out to you, Senator, is that, you know, there is no process that you could be doing there without having had management information. I mean, the only way you could have a process other than that, if you like, would have been what happened in the NAMA process, which took many months to do, which was to ... you'd have to go in and check every loan, check the security against that loan, be satisfied as to the validity of that security, etc., etc. Now, in other words, you do it on the basis of a buyer. If you're a purchaser of loans from a bank, that's what you'd do: you'd check out each and every one of them. But in a regulatory situation ... I'm not saying that this excuses anything, I'm just saying, you know ... in a regulatory situation, or in a situation like in Pricewaterhouse - and remember subsequently we sent in Jones LaSalle as well - and we sent in those people. They take a profile of loans and they give you an assessment and it's based on various ... and various baseline scenarios are worked out and worst-case scenarios are worked out and what the trends are and they give you a view.

**Senator Susan O'Keeffe:** But, Mr. Cowen, the question was did you express concerns ... do you recall did you express concerns about the information-----

**Mr. Brian Cowen:** No, I wasn't expressing concerns about-----

**Senator Susan O'Keeffe:** Okay.

**Mr. Brian Cowen:** -----I mean, I was taking it ... here were forensic, sort of, accountants going in to look at this thing. They had an expertise in this area. So I'm ... no, I wasn't expressing concern and, looking back now, I'm saying, clearly, they weren't okay until 2011 because we had to deal with it all through 2009 and 2010.

**Senator Susan O'Keeffe:** You went to New York and, I think, on the same day the Central Statistics Office officially declared Ireland the first country in the eurozone to be in recession. Did you think twice about going to New York given the seriousness of the situation, or not?

**Mr. Brian Cowen:** Well, I think, you know, the announcement that we were in recession, of course, was a serious thing but it wasn't so serious that I couldn't go and fulfil that engagement and be back the next day.

**Senator Susan O'Keeffe:** On the night of the guarantee, you'd obviously had a Cabinet meeting the previous day, isn't that correct? On the Sunday?

**Mr. Brian Cowen:** Sunday, yes.

**Senator Susan O'Keeffe:** Why did you not ask the members of the Cabinet to stay on so that you could have had a meeting with the Cabinet members, a full Cabinet meeting, given that you knew that things were, you know, becoming much more serious? I know that Monday things became more serious but why not wait?

**Mr. Brian Cowen:** I didn't know we were going to have to be making decisions on Monday night.

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

**Mr. Brian Cowen:** No, not until I got the briefing. You wouldn't know that night you were going to have to make ... you know, until you sat down and discussed it in detail. Originally-----

**Senator Susan O’Keeffe:** So what changed on Monday that made it make a decision on Monday night?

**Mr. Brian Cowen:** What changed on Monday was that there was absolute accelerated out-flows from the banks. They had run out of cash. There was an expectation on Sunday that Anglo would have until ... during the week they may have a problem but not the next day.

**Senator Susan O’Keeffe:** So why not call all the Cabinet to Dublin while you were in a meeting?

**Mr. Brian Cowen:** Well, let me explain. I’m trying to explain the situation as best I can. The first thing we had to decide was what we were going to do. Now I take the point and it’s a matter of regret to me - and a former colleague of mine has made this point in an essay in another place - that it would have been better for me to call a meeting ... even if I had to call a Cabinet meeting at six o’clock the next morning, it would have been better. I accept that. But my judgment on the night was that we had ... this thing had to be out by seven in the morning, we would talk to all our people incorporeally. They were all in different parts of the country; this was a Monday night. They had been up at a Cabinet meeting on Sunday and, probably, the thinking might have been, when I look back on it, that we may well have to consider making decisions some part of Tuesday or Wednesday you know what I mean. It was ... it moved that quick that we had to make the decisions Monday night. I just want to give a contemporary memory of what was going on and the context of what was going on. So ... and I’m sorry to colleagues if any of them feel that we should have had that meeting. It wasn’t meant on my part to be ... not to have a meeting. I’d been very much a chairman rather than chief, for those who remember my chairing of Cabinets. But, anyway, the point is that we did have ... we had to make the decisions. These were the recommendations that were going to Cabinet. We did have ... we were already due to have a meeting the next morning anyway. We had that meeting and it was confirmed that this was what we had to do. I don’t recall ... I don’t want to get into what happened on at the Cabinet meeting but there was support for the position, put it that way.

**Senator Susan O’Keeffe:** When you spoke with Mr. Lenihan ... when you withdrew and the two of you were talking together - and you’ve said that it was not acrimonious and there’s no argument about that - did you at that time or before that time, perhaps, did you take a call from Peter Quinn that night?

**Mr. Brian Cowen:** No.

**Senator Susan O’Keeffe:** Did you take a call from anybody in the Quinn Group or related to the Quinn Group?

**Mr. Brian Cowen:** No, there’s no basis to that rumour either. I’ve read about that. Absolutely baseless.

**Senator Susan O’Keeffe:** You can understand why people might ask-----

**Mr. Brian Cowen:** There’s no problem asking questions at all. I’ll give a direct and straight answer.

**Senator Susan O’Keeffe:** Now, there was a press release that was being prepared and William Beausang, one of the officials in the Department of Finance, gave evidence ... at ... here, that he was looking at a press release and I think it’s on page 14 of his own statement, point 18. He said he had a draft press release about a bank guarantee at 9 p.m. on that evening. And so ...

how was it that he'd a press ... a draft press release about a bank guarantee at 9 o'clock, when you were still in the room discussing and making your minds up about what happened? And was the content of that press statement discussed at the meeting?

**Mr. Brian Cowen:** Well, just to answer the question for you as best I can, and I'm surmising here, it's often the case in Departments of State - whether it's the Central Bank or the Department of Finance, or, indeed, my own Department - that when you're preparing for a meeting or for a meeting to take place that they do some ... forward planning and they have ready for you a draft statement. It mightn't be exactly what you'll send out, but they'll have a draft ready as part of saving time rather than going off and trying to do it at that point and waiting for an hour for them to come back-----

**Senator Susan O'Keeffe:** But why'd they only draft for a guarantee and not for nationalisation?

**Mr. Brian Cowen:** Well, because it seems to me, and again I'm surmising, it's a question that could have been put-----

**Senator Susan O'Keeffe:** Yes.

**Mr. Brian Cowen:** -----I'm sure it was put to the Central Bank Governor, if he knew anything about it, but his position at that stage late that evening was, coming into the meeting, was for a guarantee. The Governor of the Central Bank was of that ... had come to that view, and made a contribution on that basis. And that may ... it may explain why people in the Central Bank were preparing a draft on that because that was their view. The Department of Finance would have had briefing as well, ready for what they were doing and they might have had one saying about nationalisation. I don't know, you know what I mean; this is what they do-----

**Senator Susan O'Keeffe:** Yes, okay-----

**Mr. Brian Cowen:** -----and there's an explanation for it that isn't ... that's not ... problematic, if you know what I mean.

**Senator Susan O'Keeffe:** Okay. On the night there is ... there was a contemporaneous note ... I'm sorry, this is Kevin Cardiff's note, I think that's KCA 00001. So, this was the note that Kevin Cardiff kept from the night, the one ... you know, the one ... one of the notes that we have from that night. And he observes in that that Brian Lenihan said:

Anglo is now a bank with no cash and with fiduciary obligations. [And he also said] A guarantee might be seen as a banana republic measure.

Do you remember?

**Mr. Brian Cowen:** I don't recall him using that word, but if Kevin wrote it down, I don't say he made it up either. But it was ... I think it points up to the need for everyone just to calm down and discuss it all rationally. I mean, we had to go through ... you know, it was an emotional time, people were getting ... it was very tense and people were saying, "Janey, should we do this or should we do that?", so all I would say I don't recall it personally, but I'm sure if that's ... he didn't make it up either so, if he said it, he said it. But it was a question of us ... "Look guys, let's take this step by step, you know, we're not ... we have to discuss this out, let's calm it down a bit and let's go through the-----"

**Senator Susan O'Keeffe:** You were ... you were reported as being emotional and saying

“We’re not effing nationalising Anglo”. Is that true?

**Mr. Brian Cowen:** I think ... again, I don’t recall making that statement, but ... that’s the second time you ... you ascribed “effing” to me at this tribunal.

**Senator Susan O’Keeffe:** Yes, I’m reporting-----

**Mr. Brian Cowen:** I don’t use that-----

**Senator Susan O’Keeffe:** -----a journalist.

**Mr. Brian Cowen:** I don’t use that language as often as you seem to think.

**Chairman:** Senator O’Keeffe, can you move away from the colour and move back to the facts, okay please?

**Senator Susan O’Keeffe:** No, I was just ... he was talking about the tension in the room and I was following up with a question as to how much tension there might have been in the room.

**Chairman:** Can you go back to the evidence please?

**Senator Susan O’Keeffe:** Well, it was a fact reported, Chair, I’m not ... it wasn’t-----

**Chairman:** In terms of understanding, the crisis I’d ... it gives a bit of colour but not really-----

**Senator Susan O’Keeffe:** Well, it does help to understand the crisis.

**Chairman:** Please, move on.

**Senator Susan O’Keeffe:** In the Dáil, in January 2009, Mr. Lenihan said, “The only legislation before the Taoiseach and I that evening was a Bill which, in all material terms, is the same as the Bill before the House today.” And he was talking about the nationalisation of Anglo Irish Bank. So just explain how it was that, if you like, he’s saying it was before you that night? Is that the case?

**Mr. Brian Cowen:** Well, the actual Bill in its physical form wasn’t before us, but it was one of the options before us and a lot of work had been done, as you know, in preparation for that eventuality-----

**Senator Susan O’Keeffe:** So you were prepared enough?

**Mr. Brian Cowen:** -----and he was simply making the point that this eventuality had now come to pass and we had the legislation ready for it.

**Senator Susan O’Keeffe:** And so you ... so the legislation was in a form that could have been used if that decision had been taken?

**Mr. Brian Cowen:** Yes, I mean, if we made a decision to nationalise any bank that night, you can be sure the Civil Service would have produced the documentation that was necessary to achieve that.

**Senator Susan O’Keeffe:** Okay. Can I just take you back, if I may, to the day before again to the Cabinet meeting that you had on the Sunday? Did you have a pre-Cabinet meeting to



discuss the financial situation? And did you raise the Merrill Lynch paper that you had at that meeting, or was there a briefing given by any of your officials to your fellow Cabinet members at that meeting? And was ... I think you've said in your statement there was no decision taken, but there have been some suggestions - perhaps from Mr. Cardiff, he wasn't sure - that maybe a decision had been taken. So you might just tell us about them?

**Mr. Brian Cowen:** There wasn't any decision taken, I mean-----

**Senator Susan O'Keefe:** No decision?

**Mr. Brian Cowen:** No decision was taken.

**Senator Susan O'Keefe:** Okay, so was there a briefing and was the Merrill Lynch document circulated at that meeting?

**Mr. Brian Cowen:** I think the briefing would have been oral, given by the Minister for Finance. I don't believe ... I don't believe now that the Merrill Lynch document was circulated. It had been discussed, as you know, at a previous meetings. I'm not sure was it that day, but during the course of that week, there was a meeting at which a lot of people attended which included Finance people, Taoiseach's people, legal people, Merrill Lynch people, Central Bank, others, the regulator probably. So that was, if you like, an options paper. A strategic options paper is what you'd call that.

**Senator Susan O'Keefe:** And was that conversation with Cabinet ... was it robust? Were there people asking questions? Was there concern in the room? What was the tone of that briefing?

**Mr. Brian Cowen:** Well, my recollection again is that it was a briefing given by the Minister for Finance outlining the seriousness of the situation, that we were prepared to stand by our system, obviously, that whatever was necessary to do we would do, but that ... it was a moving situation, you know. We hadn't come to a point where a decision had to be taken but that, certainly, things were serious. And he would have outlined verbally what, sort, of things we were looking at ... you know, a verbal presentation which would have hit all the necessary things that you'd expect him to say.

**Senator Susan O'Keefe:** Because I think that one of your colleagues said, in a subsequent interview, that he had understood that there had been an agreement in principle for a guarantee but that the details, if you like, were to be worked out. That's now not ... that's not your-----

**Mr. Brian Cowen:** That's not my recollect-----

**Senator Susan O'Keefe:** That's not what you're saying? That's not your recollection?

**Mr. Brian Cowen:** That's not my recollection and I don't believe there's a record of a Cabinet decision to that effect.

**Senator Susan O'Keefe:** Was it a cabinet meeting that part-----

**Chairman:** Time now, Senator.

**Senator Susan O'Keefe:** Was it an actual Cabinet meeting or was it a pre-Cabinet meeting?

**Mr. Brian Cowen:** A Cabinet meeting, as I recall.

**Senator Susan O’Keeffe:** As you recall, all right. Thank you, Chair.

**Chairman:** Thank you, Senator. Mr. Cowen, I just want to deal with one more question and then I propose that we take a short suspension. So just one question before we go. I just want to revert back to your opening statement of this morning and it’s point 79 of your opening statement in setting out your reasons for making the decision for ... to guarantee the banks, you say: “It was strongly stated [it is the very top of the page there] to us by our own regulatory authorities that this was a liquidity problem and not a solvency problem.” Given these circumstances that you’ve outlined, and particularly the need to inject liquidity back into the system quickly, what different approach could have been taken, if the true financial positions of the banks had been known on the night? And would have an alternative approach in any of these ways have reduced the losses, which were ultimately sustained by the Irish taxpayer, given the apparent insistence of the ECB that no bank should fail?

**Mr. Brian Cowen:** Well, that’s a, sort of, hypothetical ... it’s a hypothetical ... it’s very hard to answer but I’ll try as best I can. Well, what would have happened? You’d ... first of all, you’d have to make the decision: do you want ... do you think it’s important to have a domestic banking system? Is it of strategic importance for the modern economy to have a domestic banking system? I think there’s no doubt that the question to that ... the answer to that has to be “Yes”, for a whole lot of obvious reasons. Let’s be clear that this is a question of pressing a nuclear button or saying, “Okay, let everyone ... let it fall where it may.” That would have had devastating effects on the Irish economy, devastated it. And, as I say, one person said to me, “We’d go back a generation, 25 years.” Now we went back five or six, let it be said, because we were back to revenues ... it was ‘05, maybe we had to go back to spending then of ‘06 to try and get it sorted out over time, or ‘07, so we did lose some years because of this, the progress that we had made, but we didn’t go back 25 years. Secondly, as people can see, I don’t ... and I wish ... I want to make it clear that I wish the people of Greece well in their situation. You know, you can’t allow a bank to close, in my opinion. It’s not the problem when the day the bank closes is the problem, it’s the next day it opens is the problem. Because everyone walks in and says, “I have X euros here, I want it all and I want it now.” And every bank business model, however conservative it is, is dependent upon deposits in and loans out, that not everyone that has a deposit comes in and looks for their money the one day. So, I’m answering your question the best I can. That’s the second point.

The third point is there was no cost-free solution. We were hoping there might be a cost-free solution but there wasn’t a cost-free solution. And the third, the fourth thing is, was there anything else you could do? Well, what the guarantee did, it wasn’t that it brought the liabilities on us that night, fortunately the liabilities were in the system, they hadn’t been identified and the market drop hadn’t been completed to know what the difference between what the funding gap was going to be. It was an issue that was emerging over time. But, what it did do was (a), as I say, without us putting up money upfront, it got us money back into the system which was critical to keep the thing going. So we bought time. I’m not suggesting that a guarantee is always a solution to the problem but it’s part of a solution. What would have happened, to answer your question, is we would have had to recapitalise much more quickly and come up with money far more quickly for that purpose. If it was a case that we wanted to keep a domestic banking system and we had problems about ... even if some of them had a problem with solvency, you’d probably work them out over time, but you’d have to do something to keep your system going.

**Chairman:** Just to kind of reshape the question and I totally understand what you’re saying, Mr. Cowen, you’re in a crisis-driven environment, you’re dealing with the information that’s

to hand, and to apply a sort of counter-narrative and counter-analysis to that, with hindsight, doesn't properly capture the context of that situation. But I suppose the core to the question is, if a true financial position of the banks had been known on the night, do you believe that there was a true financial position? Was that accurate in terms of the information that you had that evening and did you act upon what would be considered the best information or just the information that was available?

**Mr. Brian Cowen:** Well, we're back now to auditors and we're back to mark-to-market rules and we're back to a whole lot of things that are not resolvable on the night in question and are still seemingly not resolved. I would make this point to you, that when we sent in people immediately after that night to, as Deputy McGrath said last week, how do you look under the bonnet of these things? Do you go in and see what's going on? You know, they came back again with an analysis was that it wasn't as bad as it turned out to be. So even in real time, when people had time after we had to ... and we had to make a decision ... I mean we could have done nothing there that night. We could have walked away from our responsibilities and abdicated our responsibilities saying, "I'm not big enough, we can't make this decision. It's too big." With all the risks and all the pros and cons, you'll find 20 arguments why you wouldn't do this, and 20 arguments why you won't do that. And if you lose the sight of the basic thing, that if you don't have a banking system tomorrow or next week, there's people ... hundreds of thousands of people who are waiting for their wages who mightn't get them and all the rest of it. People find it hard to understand how it can get that bad that quick but to answer-----

**Chairman:** As I've said, Mr. Cowen, I appreciate all that and that the ... it's a crisis-driven situation and so forth, and concerns with the ATM machines and all the rest of it. But to come back to the core of the question, was the best available information-----

**Mr. Brian Cowen:** Yes, it was.

**Chairman:** -----made accessible to you that evening?

**Mr. Brian Cowen:** Well, I'm answering you this way, Chairman, and trying to be fair to everybody. As of that night, I don't question the good faith of everyone who was working on behalf of the country that night to do they best they could in the circumstances. And we can have criticisms of me and everyone else afterwards, I don't mind that, that's life, that's the way life goes. But what the point I'm making to you is, that when we sent in people after the night to look at it, they came back to us after looking at it for weeks and said what they said, that it was okay until 2011 at least. So, you know, that was wrong too because the situation ... that's what happens in a crisis, it moves and takes on a life of its own and you don't know where it's going to end. You have to take judgments and you have to make calls, and you do the best you can if you're given the responsibility of making those decisions. All I'm saying is that everyone in there who was trying to make that decision was trying to do the best they could for the country. I can assure you that.

**Chairman:** Thank you. With that said, I now propose that we break until 12 noon. In doing so, the witness is reminded that once he begins giving evidence he should not confer with any person other than his legal team in relation to the evidence and matters that are being discussed before the inquiry. With that in mind, I now suspend the meeting until 12 noon and remind the witness that he is still under oath until we resume. Is that agreed? Agreed.

*Sitting suspended at 11.49 a.m. and resumed at 12.09 p.m.*

**Chairman:** So I will just say members again with their mobile phones and anybody in the public Gallery with a mobile phone as well, just to make sure it's in appropriate mode. Right. So I now propose that the committee go back into public session and in bringing the committee back into public session, I now propose that Deputy Higgins will take the questions. Deputy, you have ten minutes.

**Deputy Joe Higgins:** Go raibh maith agat. Mr. Cowen, in your opening statement, at page 1, you write, "Ireland participated in the newly created Financial Crisis Cell which was not established at E[uropean] U[nion] level until October 2008." Could you tell us what this is about? It's not an organisation that would be known widely, if at all, by ordinary people. Who were the members of this financial crisis cell? And what were the terms of reference and purpose? And why the name, "cell"?

**Mr. Brian Cowen:** Yes, I don't ... I don't know why they named it a cell. Back to their IRB roots maybe.

**Chairman:** Stay away from that now, Mr. Cowen, please.

**Mr. Brian Cowen:** Sorry. But, to answer ... I don't know why they called it that. I agree it's not a very ... it's not a very great name, but anyway. This was an administrative structure really, it wasn't a ... it wasn't an organisation that was set up by way of legal decision or anything. It was ... it came out of the Heads of State and Government meeting that was held under the Presidency of France by President Sarkozy on 3 October. And arising out of that, there was a strong feeling, obviously ... where every state was having to come up with solutions themselves, there was a need to try and improve the co-ordination. The co-ordination mechanisms were obviously not working very well because in a crisis, everyone is looking to their own situation and you're not going around talking about everyone else's problems when you have enough yourself. So this group was ... it was made up of representatives of the Presidency of, at the time, the six-month Presidency people, whoever they would be. In that case it was a French official, I presume. You know, a representative of the Presidency of the Commission, you'd have a representative of the Presidency of the ECB, you'd have member state reps, if they needed ... what would happen is, basically, this would ... you would activate this if you were ... if you were the member state ... let's take an example: if Ireland ... if this had been up and running, Ireland would be expected to make contact with these ... this group to continue ... to improve contingency planning, to make sure everyone was in the know ... that you could exchange information on a confidential basis. That would be an important part of it. And really it was about trying to strengthen what was not only the lack of co-ordination but maybe even the absence of co-ordination that was taking place as people were trying to deal with this financial crisis as it was affecting countries throughout Europe.

**Deputy Joe Higgins:** And who attended the meetings, Mr. Cowen? Was it political leaders or was it technical people?

**Mr. Brian Cowen:** No, it would be technical people, and, as I say, it would be ... it wasn't ... I don't think it even ... it was a standing group. It was almost like, if there's a problem of a financial crisis nature in Europe, who do ring in Europe? Who do you call? It's the old issue - who do you call when there's a problem? And they were setting this financial, as you call it, this financial crisis cell so that there would be a structure there that would immediately get to work on whatever planning needed to be done, and you'd have people from the ECB, a representative of the ECB-----

**Deputy Joe Higgins:** Do you know which of our ... the Irish agencies would have been involved with it?

**Mr. Brian Cowen:** It would be our Department of Finance. I'd say ... I'd say now ... I don't think we ever had to use it. I don't know now off the top of my head but someone like Kevin Cardiff would be the contact person for us, the person who was in charge of the banking section.

**Deputy Joe Higgins:** Mr. Cowen, leading up again to the month of the guarantee and so forth, you conferred ... and took advice from Mr. Alan Gray. Were you aware that Mr. Gray ... that a very close business associate of his in his main organisation was also a member of the board of Quinn Insurance?

**Mr. Brian Cowen:** No, I wouldn't know that.

**Deputy Joe Higgins:** No. So you didn't get any-----

**Mr. Brian Cowen:** I don't know if that's true either, but I don't know that, I don't know that.

**Deputy Joe Higgins:** Yes. You didn't get any special insight into the issues relating to Mr. Quinn, the contract for difference for ... CFOs or that as a result of that connection?

**Mr. Brian Cowen:** No. Mr. Gray, as I say, was a person who was on the Central Bank board, who had a lot of competence, in my opinion, and ... in this area. He's a well-known and well-reputed economist and he was a guy that I felt would be a good man to bounce an idea off if we were going a certain route as to what ... what his view on it was.

**Deputy Joe Higgins:** Right. Mr. Cowen, you said in relation to the ... you wanted advice on the economy in July of 2008 and you asked Mr. Drury to assemble a number of people in that regard, and that happened in the Druids Glen. Can you tell us, or share with us, any insights that you received at that meeting with regard to the situation in the Irish economy and the challenges that were facing the economy, and the measures that might be needed to avoid a crisis?

**Mr. Brian Cowen:** Well, as I say, it was a discussion about where people felt the economy was at that point and what their view on it was. Certainly we were facing into economic ... serious economic challenges, there's no doubt. We had come off ten years of consistent growth and now, as has been said, we had two successive quarters in recession, so we were now officially in recession. And I was basically wondering, apart from just a public finance response that would emanate from that, were there other things that we could be doing that might be helpful to deal with the rising unemployment and things like that. So it was that sort of ... to find out had people ideas about we might come through what was coming up economically.

**Deputy Joe Higgins:** Yes. And at that very time, Mr. Cowen, the issues of toxic debt internationally and, for example, the sub-prime crisis, the Freddie Mac, the Fannie Mae, those issues would have been quite prominent, which related to the financial situation internationally and the banking situation internationally, could it be possible really to have such a discussion on the economy without a major reference to the banking situation in Ireland, and particularly how exposed the banks were to property?

**Mr. Brian Cowen:** No, I mean, as I say, the issue was to see, you know, how could we improve the competitiveness of the economy, you know, look at what reforms will we need to be looking at to try and improve the thing. You know, you're just basically out there fishing for

some ideas. It wasn't a sort of a formal think-tank operation like that, you know what I mean, where you're sitting down to have an agenda item meeting. It was basically to just get a read from people as to how they saw the economy going. Now, clearly, there was, as we know, there was a contraction in the economy, there was a reduction in lending. We all know that. And it was what effect ... where might this go or how can we ... just apart from just looking at the figures of it, how do we come up with some ideas that will improve competitiveness in the economy, improve job prospects in the face of what we were facing into? And, obviously, investment and education and research and development ... looking at all these sort of things as positives in the context of clearly having to deal with the public expenditure and taxation problems.

**Deputy Joe Higgins:** In retrospect now, Mr. Cowen, Mr. Drury assembled for you a panel, a majority of which were associated with Anglo Irish Bank, whose share price had collapsed disastrously a few months before, whose model was built on extensive property speculation, that was on the verge of nationalisation, that eventually cost the taxpayer €35 billion. On reflection, do you wish that you had been given advice by a more capable panel than that?

**Mr. Brian Cowen:** Well, I mean, I don't question the individual capabilities of the people that were there. I mean, they have their own ... they've had their own successes and their own difficulties in their political ... in their public ... in their, sorry, in their business careers, but, I mean, that's just a matter of opinion. They were the people that he brought together. It was to discuss those issues, it wasn't, as I say, about banking at all. And, you know, in retrospect, I know that people ... if people are of a certain demeanour or a certain mindset, you know, people add two and two and get 20, and there's nothing I can do about that. But that's ... the fact of the matter is what happened at that meeting is as I've given it. And there's no more to it.

**Deputy Joe Higgins:** And, Mr. Cowen, on the night of the guarantee itself the bankers - in evidence here - said that the meeting ... if you could just clarify, by the way ... in your statement it would seem that this was a meeting that had been organised anyway. But Mr. Gleeson of Anglo Irish Bank said it was a meeting that was specifically requested?

**Chairman:** Allied Irish Bank, is it?

**Deputy Joe Higgins:** Allied Irish Bank. Mr. Gleeson said it was a meeting specifically requested by the ... themselves along with-----

**Mr. Brian Cowen:** Bank of Ireland.

**Deputy Joe Higgins:** -----Bank of Ireland, and Mr. Gleeson said that it was mainly to discuss, to quote, the request of the Government "was to discuss ... dramatically deteriorating international situation, the apparently dire straits in which Anglo found itself and the possible repercussions of Anglo's imminent collapse". Was the meeting called as a result of the ... of the bankers, specifically to meet them? Or was it a meeting that they, as you seem to give, to indicate, that they happened to come into later?

**Mr. Brian Cowen:** No. They ... they requested a meeting. We were in the process of having our meeting and it was intimated to me that the bankers had looked for a meeting with us. And, I said, well will we meet them? And ... okay we'll meet them and they came in around 9.30 p.m. or so. So that's my recollection of it, but it ... now, did they make the request earlier than 6.15 p.m., when I sat down? I'm not sure. My understanding is that they indicated that they wanted to meet myself and the Minister for Finance, and we agreed to meet them. And, they came in on that basis. But, it wasn't on the basis of "we'll discuss this", it was just them

looking for a meeting and ... said, come in, and these ... obviously it was ... it was about what was happening-----

**Deputy Joe Higgins:** Yes.

**Mr. Brian Cowen:** -----in the markets, but there wasn't a specific agenda item there. They came in to say whatever they wanted to say, and, we heard what they had to say and then they left and then they came back subsequently again.

**Chairman:** Final supplementary, Deputy.

**Deputy Joe Higgins:** And then, Mr. Cowen, finally, because of time, Mr. Cardiff, in evidence, did say that you surprised him quite early on, I'll just quote that:

I had expected of course that we would discuss guarantees for banks among the options for consideration ... – indeed, by then I thought that some guarantees were inevitable. But the Taoiseach raised the issue of a broad pre-emptive guarantee [very] early [on]. It seemed to me [that he already had a preference for this approach going into the meeting or that it was at least] the baseline approach against which every other option would be considered.

Can I ask you, number one, if his suggestion is true, that you came there really intent on the guarantee? And secondly, and lastly because of time, did ... how seriously, if at all, did you and the Government look into the position, particularly of Anglo and INBS, and the figures that Merrill Lynch and Goldman Sachs had both thrown up to the Government before this night, when it was clearly shown in those figures that INBS was insolvent on the night of the guarantee?

**Chairman:** Mr. Cowen.

**Mr. Brian Cowen:** Well, first of all, the first question is no, I hadn't my mind made up going into the meeting. But, as I said in my statement, we got ... we first of all, got an appraisal from the Central Bank and the regulatory authorities as to what was going on that day, and the level of outflows and all the rest of it. And then John ... John Hurley spoke as well on the ... sorry, the Governor of the Central Bank spoke, and he spoke in quite stark terms about where we were at and how serious the situation was. And that made a deep impression on me and it made a deep impression on everyone else that was listening to it as well, because suddenly you realised, you know, there are going to have to be some decisions made here pretty quickly, urgently anyway. So, that was ... that's all, I mean, he said it "seemed to him", one of two things, it seemed to him I had my mind made up, which I didn't, or that I was putting the baseline scenario against the guarantee. Well, obviously, in the midst of a crisis if the ... if you have ... you can't ignore the Governor of your Central Bank. The Governor of your Central Bank says this situation is very serious and we could ... and he had been an advocate of a guarantee. Now, he had said, in his own evidence, that he was ... he only came to that view, you know, as things developed. It wasn't his original view back, when he came back from ... from having been hospitalised. He was back around September. And, he said that in his own evidence, so it ... he came to that view himself, and when he came to that view, I said, well then, knowing the sort of man Mr. Hurley is, if he's coming to that view we are in as serious a situation as he says we are in. Finally, the other part of your question, we were not ... it was not the situation that Irish Nationwide was insolvent on that night. We were told and certified by the regulator that they were solvent. The problem with this ... the problem with this liquidity problem is that, you know, when is it illiquid or when is something becoming insolvent? These are arguments that you've been having

with various people here before ye but I can only go by the advice that I get. And, in relation to previous, you know, indications of problems or issues that were coming up for banks, including those two that you're talking about, the ... the background to that was that we were being told it was well capitalised and that there were sufficient buffers to meet the situation. Now, when we put in Pricewaterhouse after 29 September, and they looked at all of these, all of the banks again, they came back and said ... certified them as being solvent. So, if we had that information before it ... if that was the information we were getting, would it have been any ... would it have made a substantive difference?

**Deputy Joe Higgins:** Yes. But, Mr. Cowen, with respect, you had ... you-----

**Chairman:** -----very quickly.

**Deputy Joe Higgins:** Just, can I just give the figure? The figure that Merrill Lynch had given the Government was that INBS had €11.7 billion out in loans, that it faced a write-down of anything between 30% and 60% which would be between €3.6 billion and €7 billion, and Goldman Sachs said that it had regulatory capital of €1.8 billion. It was clearly insolvent on the night of the guarantee.

**Mr. Brian Cowen:** No, the certification by the regulatory authority, it has been given here in evidence, the certification by the regulator was that all banks were solvent as of that night. That's the truth ... that's what was said to us. That's the position.

**Chairman:** All right, thank you. Deputy Michael McGrath. Deputy?

**Deputy Michael McGrath:** Yes, thank you very much, Chair. You're very welcome back, Mr. Cowen. Just to pick up on where Deputy Higgins started on the financial crisis cell, established at EU level in October 2008. Just to clarify, the agency of the State responsible for managing the transmission or receiving of information to and from that group would have been the Department of Finance, presumably?

**Mr. Brian Cowen:** That's my understanding.

**Deputy Michael McGrath:** The group, or the cell, was established after the guarantee decision, so, can you explain what other information might have been exchanged, as you understand it, between the Department and this cell, at EU level?

**Mr. Brian Cowen:** Well, as I say, it was set up specifically as a crisis management group, if you like, in the event of a member state stating that there was a serious financial stability incident about to occur and you needed to exchange information on a confidential basis with the various institutions. We had gone past that point at that time, by the time that was set up, and, I'm afraid you'd have to ... you'd have to ask someone like Mr. Cardiff as to what interaction there may have been thereafter. But, I just know that it was an effort to improve co-ordination where clearly an absence of co-ordination had taken place before, when everyone was dealing with their own crisis as best they could, in their own way.

**Deputy Michael McGrath:** You've outlined the rationale, as you see it, for the bank guarantee decision. Do you still believe today that that was the right decision, Mr. Cowen?

**Mr. Brian Cowen:** I do believe that, based on the information we had available to us that night, that we had to avoid a run on the banking system in Ireland, and I believe that that decision we made provided us with the best prospect of achieving that. Now, I can't prove the



counter-factual. I know what happened when we made that decision. When we made that decision money stopped going out and not only did money stop going out, money came back in and it stabilised the situation, as I said, bought time, for the ... for us to try and see in what way we could deal with, as you say, a banking system that had got probably too big, and ... and a banking system that was having real difficulties because of the, the property loans and the commercial property loans etc.

**Deputy Michael McGrath:** And, do you believe now that that decision was made with inadequate, incomplete or, perhaps, inaccurate information?

**Mr. Brian Cowen:** Well, it was made with the information that was available. I mean, as I'm saying to you, if I had ... if the ... if the thing hadn't happened until 29 October, for example, and we had sent in Pricewaterhouse, as we did on 3 September, and we came back out with the information that they were ... was coming ... emerging from there, that would have given us information that would have been ... would have been reassuring, as it turned out too reassuring, but it would have been reassuring regarding this solvency question, and regarding what was the right thing to do to get liquidity back into the system. So, I'm just trying to ... you can only deal with it as it is, and there's a suggestion that, well if you had more information you'd have made a different decision. Well, the more information we got was within six weeks of making the decision. And that was reaffirming the fact that the basis upon which we were making the decision was correct, if you know what I mean. So, the counter-factual is this, would it be ... would it have been ... you see, there's no ... I'm not saying that, you know, there's only one answer to this. I can't say that, because, to be honest with you, if you tried ... if you tried a more intermediate step, would it have worked? Could you take that chance? I mean, if, if you ended up with just nationalised ... so you just nationalised Anglo, and you put ... gave a ... this idea of a political guarantee, and you just ... out ... words, saying that we will stand behind the system as necessary. We had made that comment in relation to the ... when we increased the deposit guarantee limits. That broader statement was made, so if you like, you know what I mean? And it certainly assuaged the vast majority of people who have deposits under €100,000 in the financial institutions because that silent run, if you like, stopped and the negative commentary stopped because people could see "okay, my money is safe", because for the vast majority of people that was the, sort of, money they had in there but, as you know, there was a wider market sentiment that had to be addressed as well.

**Deputy Michael McGrath:** Was there a view on the night that the decision was made that no actual money would have to be put into the banks by the State? Was that the basis of the decision?

**Mr. Brian Cowen:** At that stage, if you are talking about an analysis which was mistaken that it's a liquidity crisis only, the whole idea was make them pay for ... you're giving a guarantee, you're standing behind the system, they pay for that so you're going to raise money, if you like, on that basis. They weren't going to get it for nothing. They were going to get it for a certain amount of time and if you could get through this liquidity crisis and they came out the far side of it solvent then, of course, you had a situation where you had given a guarantee and had got revenue for giving the guarantee. But, clearly, you know, that was a best-case scenario in all circumstances.

**Deputy Michael McGrath:** Yes but what I'm asking is: did you envisage at that time that any money would have to be put into the banks when the decision was made?

**Mr. Brian Cowen:** Well, you were hoping that you wouldn't have to put any money into

the banks. For example, if it was to be a recapitalisation, that they'd get it from private sector sources. But that was all dependent on when was this thing going to end and when was sentiment going to change. And when it did come, within two months we had committed ourselves as a Government to a €10 billion programme and that was on the basis, of course, that we would be getting a shareholding, a value that would have an upside as well in terms of how the warranty was set up and all the rest of it, that we'd get money back in the immediate term as a price for that and we'd get back money in the future were they to come through it and improve their situation. So again, Deputy, it was a moving situation. It is true to say - I have to say this I suppose to you - that the immediate priority was get money into the system because if you don't get money back into the system all of this becomes academic in the sense that all illiquid banks become insolvent. If you can't get money into the system... You know... So unless you achieve that first, your problems are going to increase and your commitment to trying to keep a banking system is going to increase. So that was your first point. Eventually then you're going to have to get to a recapitalisation phase and a restructuring phase. You're hoping that you'd have a private sector solution to the recapitalisation phase. If you haven't, obviously, the Government would have to step in and take whatever levels of ownership were appropriate and still have the prospect of them getting private sector investment by not going for total nationalisation, if you could avoid it, or, ultimately, go to a nationalisation, if confidence has increased-----

**Deputy Michael McGrath:** How do you respond to the view of Governor Honohan which was conveyed to this committee that even with the information available at the time, the decision, in his view, that should have been made was to take the two "failed banks" as he called them, Anglo and Nationwide, into custody in effect by nationalising them, seek to provide ELA for a period and try to achieve some burden-sharing? Now in his witness statement to us in recent weeks, he speculates on the net cost of the guarantee decision itself and he made the point:

All in all, a possible net economic saving in the area of €2 billion to €10 billion could be imagined but surely no more than that. If so by September '08, well over 90% of the net economic cost to Ireland of the boom and bust had become unavoidable.

How do you react to that?

**Mr. Brian Cowen:** How I react to that is, first of all, to say that if you take he says 90% of it... No matter what decision you made that night you were caught with it or you'd a problem, put it that way, I'm not saying you are caught with it - that loss was in the system. But the other statistic he comes up with is as you say an imagined scenario. Now I have looked at the report because Professor Honohan ... I have a lot of respect for the man, obviously, he did a good job when he was in there as Governor, as did his predecessors all worked hard to the best of their ability ... the point is that he is saying in his report that a guarantee was required on the night. Now, he says ... he argues, maybe it shouldn't have been as extensive, and he specifically refers to the dated subordinated debt issue. That's the issue he refers to in his report, which was 3% of the total coverage. Now if I thought for a moment I got something 97% right, instead of 100% right, I'd take the 97%. But the point is that, even on that 3% issue, as you know, none of that dated subordinated debt matured during the two years of the guarantee and, therefore, was substantially haircutted, subsequently, under the eligible liabilities guarantee that we brought in in 2009, when we narrowed the guarantee. And let's remember that we agreed to review the guarantee with the EU within six months, which we did. And the problem of trying to get long-term bond issuance was a critical factor and that's what the eligible liabilities guarantee scheme was about. But we also took the opportunity to narrow the dated subordinated issue because that was, in fairness, again a call. You could, in normal circumstances, leave that out,

you know, if you were looking at it in a normal market situation. Just to come to the point. I'm sorry if I'm ... This question of between €2 billion and €10 billion. As you know, that's a pretty big difference between €2 billion and €10 billion, first point

**Deputy Michael McGrath:** Mr. Lenihan was advocating nationalising Anglo. Did he explain why he felt that would be a better course of action? What would have been the benefit of nationalising Anglo at that time, as was explained to you in the discussion you had with him, and, indeed, Kevin Cardiff seemed to hold a similar view? Nationalise and do what was the-----

**Mr. Brian Cowen:** Well they would ... well, this is the point. First of all, let me say it is a valid thing to put on the table. I am not suggesting it's not. This is equally valid as what we ended up with in terms of its validity to be considered. One of the problems with nationalisation is, as I saw it, was you are taking it on straight away and you are taking it on for an unlimited time. You do that only if you had to do it, if you absolutely had to do it. Now on the basis of where we were at, I didn't believe we had to nationalise Anglo Irish Bank that night. Now I didn't have a problem ideologically about that but I decided when it didn't have to be done because of other issues that came into play, like corporate governance issues, etc., then I didn't hesitate about nationalising a bank. That wasn't my issue. The question ... what Brian was I suppose... I'm very conscious of the fact that he's not here so I don't want to say anything other than that he obviously felt - and I've said it very clearly - his preference was for nationalisation. The problem with that is... That cuts both ways. Will it bring on more nationalisations? Will it be a confidence-building measure or not? Some would say it will, some would say it won't be. I mean, in the context of all the turmoil that was going on - and this was unprecedented stuff - my view was, at the end of the day, let's go with a temporary guarantee and if it ends up we have to nationalise this or any other bank, we'll do it but we'll only do it if we have to and there might be no harm, as we did with Pricewaterhouse, to go in there and get a better handle of what's going in, what way is-----

**Deputy Michael McGrath:** Chair, very finally, can I ask to put up on screen the note of a telephone conversation you had with Gordon Brown, the British Prime Minister? I have given the reference already. So this was on 30 September. So later on in the day after the guarantee had been announced, this is a memo by Dermot McCarthy of a conversation you had with Gordon Brown and it would appear to have been quite a difficult tense conversation. But, Mr. Cowen, can you confirm what was his essential point to you in that conversation? And was he looking for you to extend the guarantee to UK banks with operations in Ireland?

**Mr. Brian Cowen:** Well, obviously, they had that concern and, you know, he was putting forward their concerns and I was explaining why we had to do what we had to do. They had done things themselves and everyone was trying to handle their own national situation as best they could. I mean, during the debate in the House on the actual guarantee itself, you know, clearly, there were banks in Ireland who were making this point and it was being articulated in the Dáil debate - there is nothing wrong with that. People were saying, "Are you sure you have to leave .. how are you going to handle that aspect of the situation?" And we, obviously ... Brian Lenihan discussed all this with the banks concerned and, at the end of the day, they made a decision not to come in on the guarantee scheme because of the conditions we would have had to set for them to do so. Because one of the things you have to bear in mind is that a subsidiary here of a very large bank in the UK, you know, you'd want to have a very clear view as to what was their situation going into a guarantee and make sure that other aspects of the activity wasn't coming back in through the subsidiary, if you know what I mean. So, you know, we ... I simply said to him that we would continue to work with those who had concerns

but that we had a national interest that we had to protect and we were doing so in as broad a way as we could, without taking on more ... we were already taking on a lot in a contingent liability without taking on anymore. So, you know, it was a civil and appropriate conversation. There was nothing untoward about it at all. They had concerns, it was their job to communicate those concerns to us, and we were saying, “We’ll be mindful of those as we move forward over the next few days trying to get an EU state aid approval for what we’ve decided to do.”

**Deputy Michael McGrath:** Thank you. Thanks, Chair.

**Chairman:** Thank you very much. Deputy Kieran O’Donnell.

**Deputy Kieran O’Donnell:** Thanks, Chairman. Mr. Cowen, say in the previous, we’ll say, period in ‘07 and ‘08, you were ... and even prior to that, you were getting warnings from the Department of Finance officials about the exposure to the property market and could I make reference to document DOF 01962002? It’s Vol. 2, Department of Finance. And it specifically relates, Mr. Cowen, to a memo from the domestic standing group to yourself and Mr. Beausang back in 16 November 2007, where they speak about that there was a problem with liquidity coming down the tracks for the Irish banks. So, the question I suppose I want to ask you is that, when you went in as Taoiseach, you would have been ... you would have seen this memo - it’s coming up on screen - that was ... and this particular memo was the bones of over ten months before the bank guarantee was put in place. What type of instructions did you give to deal with this unfolding crisis? And how did we get to a point that, over ten months later, on the night of the guarantee on 30 September, that, in a room alongside your office as Taoiseach, that people were standing around looking over a cliff to make a decision in a eight-hour period, it would have monumental implications for Ireland in terms of eventually leading to a gross of €64 billion on the heads of-----

**Chairman:** Question now, Deputy.

**Deputy Kieran O’Donnell:** -----Irish taxpayers?

**Mr. Brian Cowen:** Yes, well, I think what I was ... what we were doing for the previous 12 months before that was managing the situation where the Central Bank was working with the individual institutions, making sure they were organising collateral that was eligible for liquidity support should they need it. And some needed it at different times of the year, or at different periods more than others, and that was a fluctuating situation. Now, saying that, the total amounts, coming to July, was about €15 billion in total for Irish banks. There was a lot of non-Irish banks who were getting a lot more liquidity assistance than our banks were getting, because the total amount was €44.5 billion for banks in Ireland. So, €15 billion of that was, if you like, what we call Irish banks. So there was ... it was being managed. The situation was, as I said before, this liquidity squeeze, if you like, went on ... it was the longest one that went on since 1945. It wasn’t initially thought that it would go on that long and that it’s something that had to be managed. Again I say to you that the regulatory authorities were informing the Government that the ... they had done ... they were doing stress tests. You’ll know about stress tests. It’s mentioned in the Honohan report where interest rates go up another 2.5%, what would be the position, etc., etc? And all of that was indicating that the banks, whilst managing, while there were difficulties, the background was we were getting through this.

**Deputy Kieran O’Donnell:** I suppose the main question I have is why, on the night of the guarantee, wasn’t there an actual plan, a formal crisis plan, in place for months before? Why ... you said earlier that you didn’t know what you were going to do until you had that meeting and

you were briefed, but why-----

**Mr. Brian Cowen:** Ah now, I think you're being unfair to the amount of work that was going on beforehand. I mean-----

**Deputy Kieran O'Donnell:** But there you were-----

**Mr. Brian Cowen:** -----there was ... well, just to be ... to be rounded about it and to be straight about it, I'm not trying to have an argument with you about it. The crisis management that was ongoing, and it's ... a trigger moment happened in September ... that's the sort of way it's been described by people who were there as well, like ... people like Kevin Cardiff. It wasn't just you were managing a tightening situation. The whole thing ... the nature of the problem changed completely because Lehman's - which is not a big bank in US terms, certainly not a big bank in global terms - what had they had ... what had happened there at that bank had brought about a situation where, you know, the government, the US Government, were practically pleading with Congress, on the same night that we were meeting, to give them something like \$600 billion or \$700 billion to throw at the problem because they didn't know where it was going to end up. That's what ... that's ... and when you're asking me what the plan ... the plan was in place that we were ... all of the work had been done. We had a nationalisation Bill ready to go, if that's what we wanted to do. We had made arrangements to have a fighting fund established, if that's what we needed to do. We had legislation ready to go, if we were going some, sort of, a guarantee route. That was ready, you know, so, in fairness, an awful lot of contingency work was done.

**Deputy Kieran O'Donnell:** Well, then can I ask ... you're on record as saying last week that Kevin Cardiff was the expert in the Department of Finance on banking. You had the expert, Kevin Cardiff, you had the Minister for Finance, both saying ... who were effectively your men in charge of the whole finance-banking area, saying that they wanted to nationalise Anglo. Why did you overrule them?

**Mr. Brian Cowen:** Because the Central Bank Governor told me ... the Governor of the Central Bank, who has responsibility for financial stability and who is also a public servant of long standing and well-respected, was saying, as were the regulatory authority, were saying to me, "We have a system-wide crisis. You've got to go with a comprehensive response and you've got to make sure that you arrest this thing now because you'll only get one go at it." And you've got to sit in my position then, Deputy, if you can at that point and say, "Right, where would I be today if I had gone..." ... I'm not saying ... just ... because we can't prove counter-factuals, unfortunately, but say "Where would I be if I went with an intermediate step that wasn't what we did and it didn't work and the word came out subsequently that I didn't go with the advice of the Governor of the Central Bank?" There'd be a problem there too, wouldn't there? So, I mean, the fact that we ... I know we hadn't unanimity. Like, people had a variant of the same thing, if you like-----

**Deputy Kieran O'Donnell:** But ... but in-----

**Mr. Brian Cowen:** -----but-----

**Deputy Kieran O'Donnell:** -----in layman's terms, you did overrule the Minister for Finance?

**Mr. Brian Cowen:** No-----

NEXUS PHASE

**Chairman:** Sorry, Deputy. Now, excuse me one second, Mr. Cowen.

**Mr. Brian Cowen:** No, I'm not-----

**Chairman:** -----one second, Mr. Cowen.

**Mr. Brian Cowen:** I've explained that, Deputy.

**Chairman:** You can't be putting words into a witness's mouth.

**Deputy Kieran O'Donnell:** Or not?

**Chairman:** And that's not even acceptable. An "or not", please, that doesn't cure it. So, Deputy, I don't want a rematch of last week, so if we can maybe play straight down the middle, please?

**Deputy Kieran O'Donnell:** Well, then, can I ... can I move on? Can I move on-----

**Mr. Brian Cowen:** Okay, thanks.

**Deputy Kieran O'Donnell:** -----Mr. Cowen? Between ... for the five months between March and, we'll say, July '08, you had three contacts with Mr. FitzPatrick in Anglo and you met ... you had a telephone conversation in March, you had a dinner with them in April, and then you had, Druids Glen, a golfing outing. That's three meetings with one bank. Did you have any discussions with any other banks in that period?

**Mr. Brian Cowen:** No, I don't believe I had. As I say, all of the banking-----

**Deputy Kieran O'Donnell:** But is it not-----

**Mr. Brian Cowen:** -----issues would be dealt with in the Department of Finance. Now, I just want to make one thing clear, Deputy, if you're making the point that ... and I just made this point last week and I make it again. You know, the fact that I had contact with Mr. FitzPatrick in those settings, as you say, doesn't mean anything in terms of ... had no influence whatever in what I was trying to do as Taoiseach of this country on the night in question.

**Deputy Kieran O'Donnell:** I'm asking ... the question I'm asking you is you had contact with no other banks. Now, when you had your golfing outing in Druids Glen, a few days before, on 18 July, it had gone public about Mr. Quinn's exposure in terms of Anglo. You had the share price in Anglo falling, you had the whole issue in terms of liquidity with Anglo, so, in hindsight - you used that term - was it poor judgment on your part to meet ... have a meeting in the Druids Glen where you had four people, which all four had been at some stage ... two of them were the board of directors in Anglo; two had been previously board of directors in Anglo; one of them was on the board of both the Central Bank and the Financial Regulator authority at the time; was it poor judgment, on your part, to go to that golfing outing in Druids Glen?

**Mr. Brian Cowen:** Well, I'd say all of the individuals concerned would now, given what's been made of it, would rather it hadn't happened. I'm sure that's true, if only for the optics. But on the substance of the situation, and this is the important point, what's the substance. The substance is I want to assure the Irish people that I didn't do anything untoward, or inappropriate, or discuss issues I shouldn't be discussing with any individual bank at the expense or cost of anyone else, at that time or ever. I didn't discuss it, and that's the way I've always operated. You know, I've ... I tried to perform my public duties well and, as I say, contact ... the idea that

we live in an era where contact equals some sort of nefarious collusion going on, I mean, I'm sorry if people want to-----

**Deputy Kieran O'Donnell:** I'm just saying-----

**Mr. Brian Cowen:** No, I'm just ... and I'm just answering, because you're asking the question-----

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

**Mr. Brian Cowen:** -----on the basis that there seemingly ... there may be people out there who think there's some substance to this-----

**Deputy Kieran O'Donnell:** Well, they're-----

**Mr. Brian Cowen:** -----and I'm saying there ... Listen, you're entitled to ask the question-----

**Deputy Kieran O'Donnell:** It needs to be asked.

**Mr. Brian Cowen:** Of course, and it's been asked two or three times already, and I'll answer it again-----

**Deputy Kieran O'Donnell:** But-----

**Mr. Brian Cowen:** -----but please don't interrupt me when I'm answering-----

**Chairman:** Sorry, please.

**Mr. Brian Cowen:** You know, I am answering the question. Because basically, it's really ... it's a question of integrity. It's a question of my integrity as a person. It's a question of whether I would conduct public affairs in that way and the answer is "No". And I look to 27 years of public life, against me going to play a game of golf on a particular day, and I put those two against each other. And that's all I can do for you. I can't satisfy a curiosity that I can't satisfy because nothing untoward happened. But if people want to set it up as if something happened, I mean, I can't do anything about that only to say, here under oath, that there's no substance to it. And there's no indication, subsequently, that there is any substance to it, because it's not the way I operate. Contact does not denote collusion with people. I make up my own mind on issues of importance. I was given a job of responsibility to do; I did it to the very best of my ability. It is unfortunate from an optical point of view that people say, "Well, there, there, there" ... you know, that happened, and people want to put some, sort of, a wrong spin on it. Yes, of course, I'd rather it didn't happen. I'm sure the other people rather it didn't happen too because someone is trying to look into something-----

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

**Mr. Brian Cowen:** -----that isn't there. So anyway-----

**Chairman:** All right, Mr. Cowen and-----

**Mr. Brian Cowen:** So that's it.

**Chairman:** Mr. Cowen, I just don't want to be getting into area of repetition on the same kind of question line. Deputy O'Donnell, is that it?

**Deputy Kieran O'Donnell:** Yes.

**Chairman:** Thank you. If I could maybe just ask you one question there, Mr. Cowen, and then I'll move on. Did you, as Taoiseach, receive any warnings or analysis in 2008 from officials either in the Department of the Taoiseach or the Department of Finance of overheating in the construction sector or of a housing bubble, and, if so, what form did that actually take? Was there ... I know we were discussing banking matters, but there are fiscal issues as well that are in place at the time, particularly ones relating to the housing sector and the creation of a property bubble. Was that on your radar at all?

**Mr. Brian Cowen:** Sorry, Chairman. Yes, well, I mean, once I became Taoiseach from May on it was clear that the ... after two quarters, that we were heading into recession, so rather than there being a bubble or an overheating, there was certainly an under-heating going on or people were heading in the other direction at that stage. And the Minister for Finance made public comment about that, and rightly so. Secondly, it was clear that the budgetary situation was changing and we would have to make adjustments and we made adjustments within a few weeks of the new Administration being set up as a first step, and we brought in an early budgetary recall as a second step, before the budget due in December. So we were seised of the issues in terms of having to deal with an emerging deficit, and having to come forward with policies that would address a new situation-----

**Chairman:** What timeframe are we talking about here now, Mr. Cowen?

**Mr. Brian Cowen:** I'm sorry?

**Chairman:** What timeframe are you talking about these measures being put in place?

**Mr. Brian Cowen:** Well, from May 2008 we came in, the new Administration started on 8 May. I think in June or July, within six weeks I'd say, Brian Lenihan had a memo to Government setting out reductions in expenditure and outlining what he'd be requiring for 2009, which would be further reductions. And then implementing those and then moving towards bilateral discussions on the budget in the autumn and bringing forward the budget in an effort to try and create a build ... to see it as a confidence-building measure against the sentiment that was coming up against the country at the time. So there was no analysis ... to answer your question, there was no analysis of a bubble, because clearly the August to August, year-on-year situation showed a reduction in residential homes of, nationally, of about 3.5%, and that was going to continue but, obviously, continue far more precipitously than was originally envisaged.

**Chairman:** Okay. So fiscal taxes, stamp duties, VAT returns that would have been coming out of the construction sector and their margin and percentage of what was your annual income of that time, the longevity and how long these would be sustained into the future were not being discussed?

**Mr. Brian Cowen:** Well, obviously, they were being discussed within the Department of Finance in preparing its budgetary strategy for the following year. And there was clearly a reduction ... a clear reduction in the ... income taxes were showing okay, and corporation tax a little down, but it is true that the VAT and the stamp duty were showing a significant decrease, a serious decrease, as of the ... as of second quarter.

**Chairman:** Right, thank you. Senator Marc D'Arcy.

**Senator Marc MacSharry:** You're at it again.



**Chairman:** Sorry, my apologies. Marc MacSharry, excuse me. My apologies.

**Senator Marc MacSharry:** That's okay. Thanks, Mr. Cowen, and you're welcome back. Can I ask, in Cabinet, your relationship with Brian Lenihan through the years, was it good?

**Mr. Brian Cowen:** Very.

**Senator Marc MacSharry:** Was there often situations where, with Cabinet colleagues, including Mr. Lenihan, that you would seek advice and disagree?

**Mr. Brian Cowen:** Very ... not on the big issues, no. I mean, in a situation that we were facing into, Senator, Taoiseach and the min ... must support his Minister for Finance. And it was very clear to colleagues, in relation to economic and budgetary matters, that he had my full 100% support.

**Senator Marc MacSharry:** So if occasions came up from time to time, like they did where he favoured one particular line and you favoured another line, did discussion continue until such time as there were consensus, or did the hammer come down?

**Mr. Brian Cowen:** Ah no, I think in relation to this particular matter, of course, in a crisis situation we had to come to a conclusion that evening, that night. And as I've said, I hope I've outlined in my statement, because I want to do justice to him as to what his position was, it was different to mine as I was outlining, and we chatted it out. And we came to the position we came to on the basis as I've outlined, that I wasn't ruling out nationalisation in principle. I was saying we'd have to have another look, a long look at that before we'd come to that conclusion, but that, clearly, we needed to have a comprehensive response and he agreed with all that. And clearly, you know, we were all learning from everyone else as this conversation was ... we weren't ... you know, there was no one going in saying, "I have the answer and no one else has the answer". We were grappling with a situation here which was very serious, and, as been said by others who attended, we came, ultimately, to a conclusion as to what we felt, on balance, on balance, with different degrees of enthusiasm as well - no one was enthusiastic, obviously - but different degrees of conviction, I suppose, what was going to be the best thing to do.

**Senator Marc MacSharry:** So when you re-emerged from your private office to the main meeting, was there absolute unity in terms of the position being taken in terms of you're articulating to the rest of the meeting as the chairman of the meeting that we're going with the guarantee? Was Minister Lenihan full square behind you on that and articulating the same or had he gone home because you mentioned he left-----

**Mr. Brian Cowen:** No, he certainly ... I don't want that to be ... That was very late in the night and Minister Lenihan was ... had a long day the next day, and I suggested to him in his own interest ... we had practically completed everything at that stage, so I mean ... you know, he was going to be up even sooner than I the next morning so I don't want that to be taken in any wrong sense at all. He'd have stayed up all night if he had to, there was no problem.

In relation to the question of ... sorry, you were asking the question about? Oh yes, when we came back into the room. When we came back in ... actually we decided then to call in the bankers. They were around at this stage; they were in the building. And they were asked in and they gave their views. And we listened to what they had to say and we discussed what they had to say when they left. And then we brought them back in again, subsequently, about this question of how ... would they be prepared to provide liquidity support, help, to Anglo if it was a case that what we were suggesting didn't work. All of this was being discussed. And at the

end of the day, when we discussed it all out, again, you know, we had to come to a decision. I mean, people were saying to me, “Look, if we’re going to nationalise, we’d need to be making a decision by now.” We had certain things to do, if we were going to do something else, you know ... so people were saying at this point, “We better come to a decision.” And I ... so it wasn’t for the absence of discussion and trying to work out the best thing to do that we arrived at that point. So, I said, “Okay, look, based on everything we’ve heard, based on the need to ... we’ve only one go at this, that an intermediate step may not be enough, that we have the strong view of the Governor of the Central Bank, strong view of the regulatory authorities, we’re interfacing with them on an ongoing basis. Will we go with the guarantee ... the temporary guarantee, rather than nationalisation, i.e., permanent guarantee plus temporary guarantee?”

**Senator Marc MacSharry:** Just ... so, for clarity, was, at this stage, Minister Lenihan 100% behind you saying, “Yes, okay, we’re all going with this,” or was he saying, “Jesus, Brian, don’t do this”?

**Mr. Brian Cowen:** No, he agreed. Let’s be clear, when I put that, from Department of Finance point of view, Brian agreed, Mr. Doyle agreed - that was the Sec Gen and the Department of Finance - we had ... Mr. Hurley agreed, Mr. Neary agreed, Mr. Farrell, if he was there at that point, agreed. So the regulator was ... agreed anyway. I was agreed. So that was basically it. We put it and there was no ... we weren’t ... there was no dissent, if that’s what you’re saying.

**Senator Marc MacSharry:** No, I get that. Can I ask so, if, in your view ... that Mr. Honohan’s evidence, in that Minister Lenihan was overruled ... to your recollection and with hindsight, would that represent an unfair account of events?

**Mr. Brian Cowen:** Well, as I’ve said, I mean, if Professor Honohan says Brian said that to him, I don’t question that. But what I also say is that Brian also said to Kevin Cardiff ... he put it that we were coming to a common position and that’s ... because he thought it was important that we ... and it was important that we do that, so I think that’s ... that’s sort of the demeanour of ... that he was adopting. We were all trying to do the best we could, come up with a conclusion, come up with a decision. And I’m sure he respected my position as well as I respected his, but, you know, at the end of the day, I had to chair the meeting, I had to pull it together based on all of these views that were ... that were being held. So, in that sense, you know, it wasn’t an atmosphere where I was overruling people. I don’t want to get into pedantics here and get into, you know, word games. I’ve explained in my statement, conscientiously, what I believe happened. We had a long discussion about it. It wasn’t in any way an acrimonious ... why would it be? We were both on the same side trying to do the best we could in a difficult situation.

**Senator Marc MacSharry:** Okay. You mention that you had, during a break, consulted Brian Gray by phone, whose ... Alan Gray, sorry ... Alan Gray, whose opinion you respected and ... just to bounce a few things off and you talked about a guarantee and he pointed out to you the importance that there would be some kind of a fee for that guarantee, obviously, because of the European rules and so on. Did the banks look for the guarantee for free?

**Mr. Brian Cowen:** No, they ... I wouldn’t think that’d be right. They didn’t look for a guarantee for free. They never said “Guarantee us and nationalise ...”. It was clear that they were making ... it was clear to me what they were saying. You know, people can be diplomatic about how they say it but it was clear to me what they were saying. And the question of a fee ... you know, obviously we were going to charge for it. You weren’t going to get a Government guarantee-----

**Senator Marc MacSharry:** No, I get that, but were they of the expectation or the demeanour that-----

**Mr. Brian Cowen:** No, I don't ... no, I don't believe they ... no, to be fair, I don't believe they were, and I can't speak for them, but they'd be ... they'd be ... they'd be ... on the ... they'd be on the wrong ... they'd be on the wrong road if they thought they were going to get it for nothing, that's for sure.

**Senator Marc MacSharry:** Did any ... just going to two final questions. When the nationalisation of Anglo was being contemplated at the end of 2008, was there any indications as to the scale of large loan exposures involving a small number of borrowers - for example, 70% were €50 million or more in value - or was this not clear until the later NAMA, kind of, analysis?

**Mr. Brian Cowen:** Pricewater ... sorry, Pricewaterhouse were coming back to us after their initial look in late September and they were saying, yes, there was evidence of concentrations there. At the end of the day, the real situation only arrived for ... to be seen in all of its horror, if you like, when the NAMA exercise of going loan by loan through every book, through every transaction, and then coming upon with what the real situation was. And you'd have had to do that sort of granular case-by-case assessment to get, ultimately, what an accurate picture was. Now, if you'd done a granular case-by-case assessment based on valuations in October '08, it would be different to the ones that you had in March '09 or September '10, because the market valuation was deteriorating over time.

**Senator Marc MacSharry:** Just, very finally - and we did deal with some of this but just conscious that people are watching at home - could you very briefly outline the chronological events that led from, say, the night of the guarantee, not nationalising, to then 15 January 2009 in terms of the decision to nationalise? So what changed that decision? What brought that on? Or were we, in fact, with the benefit of hindsight, destined to nationalisation from the night of the guarantee?

**Mr. Brian Cowen:** Well, what changed the situation was we had the Pricewaterhouse exercise and we had the Jones LaSalle exercise - the valuers went in as well. They assessed what the situation was for all six banks. We then had, in November ... late-October-November, you had the Minister for Finance meeting with bank executives, firstly, in Farmleigh and, secondly, in the Department, maybe a week or two later, making the point to them that the market situation had moved where they needed to have capital ... more capital in the bank, that they were going ... that they needed to get capital if they could get it themselves and if they couldn't get it, that the Government were going to have to make our move and get it to get it into the system and that obviously there would be a price to pay for that.

On the Anglo situation, we had indicated ... of the €10 billion recapitalisation package, that €1.5 billion would go into Anglo, if you recall. What was envisaged at that stage was that that would probably be worth about 75% of the shareholding. We then had ... went in and did some due diligence on the basis that we were considering doing that. And what emerged from that was some of the corporate governance issues that arose. We also had the resignation of the chairman of the bank. We'd the resignation of the chief executive of the bank. We had a situation where ... share price was under attack again because of loss of confidence this time ... completely. And then there was also liquidity problems re-emerging in the bank in terms of outflows, people taking deposits out. So that led us then to a situation where we had to consider a further step which was a nationalisation of the bank. The Minister for Finance took advice

on those issues from the requisite people - from Central Bank, from regulator, from NTMA and all the rest of it. This was now into January and I was away on this trade mission in Japan and he rang me to discuss all this with me and say to me that he felt that we now needed to urgently nationalise the bank. I discussed that with him as to who was saying that, what was the ... what was the background to that. He went through all that in great detail and I then said, "Okay, we'll authorise the holding of a Government meeting and you can put a memo to Cabinet today."

**Senator Marc MacSharry:** And the Governor ... was he articulating to you that the Governor was very much-----

**Mr. Brian Cowen:** He had the support of all authorities to do that.

**Senator Marc MacSharry:** Okay.

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

**Senator Michael D'Arcy:** Thank you, Chairman. Mr. Cowen, you're welcome. Mr. Cowen, you've mentioned on numerous occasions today about the PwC analysis that occurred subsequent to the guarantee. That's Project Atlas. Were you aware that the PwC work took the valuations that the banks had and found the result that the banks were solvent based upon the banks' valuations?

**Mr. Brian Cowen:** Yes, as I was saying earlier, that, you know, when you go in and do an exercise such as this in the timeframe you're talking about, you are dependent on management information as well as everything else. But we had also sent in, as you will recall, valuers ... independent valuers as well ... subsequently, as well, so to try and get as much information as we could that wouldn't be just reliant on management information but also valuers like Jones LaSalle ... Lang LaSalle going in to work with PwC. So we ... that was our, if you like, our extra effort to objectivise the thing as best we could.

**Senator Michael D'Arcy:** Mr. Peter Bacon, when he provided evidence before us, said that his figures were that there would be a €35 billion impairment on the banks' balance sheets. Now, the numbers turned out to be €42 billion. Were you surprised at those levels of impairment? Was that the first occasion-----

**Mr. Brian Cowen:** Yes. Yes, I mean, all of us were surprised. I mean, the Minister for Finance employed Mr. Bacon to assist him in dealing with the next part of the problem which was: how do you make sure that banks continue lending? And one of the ways you do that is you look at the options with how you deal with the non-performing, or the non-performing loans as you'd call them, or the loans that weren't being repaid, what do you do with those? How do you get a valuation method in place that would be accurate ... reasonably accurate... so that if you did go then that road, that whatever further responsibility the State was taking on to deal with those assets in order to make sure the bank got back to some sort of a functioning system to support the economy in some way, how could you make sure that you could accurately forecast the real valuation of those in the context where the market wasn't working and where you're going to avoid fire sales obviously and do this over a period of time? And I think that the work that he did was very helpful to the Minister and to the Government in coming to the decisions we came to.

**Senator Michael D'Arcy:** Mr. Cowen, you said earlier that the market sentiment had to be addressed prior to the night of the guarantee. And I'm quoting Department of Finance booklet Vol. 2. I'm not sure if that booklet was made available to Mr. Cowen but the, it's the

memorandum from Merrill Lynch, it's page 113, dated 28 September 2008. And the second last paragraph, the last line of that and it states, "The liquidity issues facing [the] Irish banks are compounded by investor concerns with regard to the high concentration of commercial property risk in their respective asset portfolios." Mr. Cowen, the market analysis proved to be correct and can I ask you your-----

**Chairman:** Can you give Mr. Cowen, somebody give him that document there? Okay, okay. Thank you.

**Mr. Brian Cowen:** It is reasonably okay, thank you.

**Senator Michael D'Arcy:** Can I ask, Mr. Cowen, how the authorities ... I'm talking about the Central Bank, the Financial Regulator and the Civil Service also, as well as the body, as well as the Government ... were unaware and yet the market sentiment was very clear and was very clear from a long period of time?

**Mr. Brian Cowen:** Well it wasn't that we were unaware of the fact that these were factors that were playing on sentiment of the markets at the time. We weren't unaware of that. The problem was being able to accurately evaluate where all this was going to end up. And that was a big problem. So ... and the efforts that we were making both before and after the guarantee decisions, was about trying to get more information, more of what we thought would be accurate information. But as you know, as the markets situation was, you know ... this was a moving matrix every time you looked at it as far as I could see. That you had a situation where we had to put in capitalisation ... recapitalise for the purpose of meeting market requirements for capital ratios, that was the first thing. Then by spring of that year when we got into the NAMA process or got into a NAMA-type decision - set that up administratively. Get into the business of getting full co-operated in the banks to get into the case-by-case state of the loan books. You know all of this. The disadvantage of it was it was taking time to do that. But at the end of the day when it's all boiled down, the only way you could be sure of where you stood in all this was to do a case-by-case assessment and spend that time.

As you said before, as I think was said before, you know, going into the Dáil with a policy proposal such as this, you know, quite rightly the Opposition and the Government representatives or Government Deputies would be saying, "Well what are we talking about here, what sort of scale are we ... do we envisage?". And you'd then give your best guesstimate at that point. And of course that doesn't prove right but once you put that out there then that becomes a benchmark, and if it's over that you're criticised, but if you don't give the information you're wrong as well. You know what I mean? You're trying to get your handle around a very, very big problem. Get your arms around a very big, very big problem very quickly. So on the one hand, you know you must have due diligence, clearly, and on the other hand people want information that when they're being asked to support legislative proposals that they have a good idea what it is they're being asked to support.

**Senator Michael D'Arcy:** Can I ask you, Mr. Cowen, if you scroll ... if you turn to the next page of that document please, half way down, last paragraph before summary description. And Merrill Lynch say, "It is clear that certain lowly rated monoline banking models around the world, where there is concentration on a single asset class (such as commercial property) are likely to be unviable as wholesale markets stay closed to them." Did you expect that you would be nationalising either one or two financial institutions in a matter of weeks on the night of the guarantee?

**Mr. Brian Cowen:** No, we didn't know that, Deputy, to be honest, we didn't know that that would be the outcome.

**Senator Michael D'Arcy:** Even with that statement there from Merrill Lynch?

**Mr. Brian Cowen:** Yes even with that statement there. I mean at the end of the day, it may be that we had to take a position in terms of the capitalisation of some of these, and take a shareholding, which was the initial thinking we had on the Anglo situation when we were putting in the €1.5 billion. But other issues then came into play there which meant we had to go the full nationalisation route straight away.

**Senator Michael D'Arcy:** Can I ask your view in relation to INBS attempts to gather deposits in the UK? I'm talking specifically about Michael Fingleton Jr., when he ... people used the term ... "abused" the Government guarantee?

**Mr. Brian Cowen:** Yes, well obviously we had the officials, the people who ... people who would be interacting with the financial institutions on how this was working would make it very clear that we were not ... we were in the business of retrieving our situation but not sort of getting ourselves into a whole load of problems with neighbours either if we could avoid it. I mean there was a lot of competition for deposits. And you know there was some indications from the other side of the water too that, you know, banks, Irish banks here were being talked down. You know, I mean ... I'm not excusing anyone's behaviour where people were over-zealous in what they were doing but that wasn't a one-sided penny either.

**Chairman:** Last question now, Senator.

**Senator Michael D'Arcy:** Yes. Can I ask, Mr. Cowen, and I understand Cabinet confidentiality may apply here, but your decision to increase the deposit guarantee scheme from €20,000 to €100,000 was higher than a lot of other jurisdictions. Could you give me, and give the committee the analysis that was undertaken to arrive at that decision and who took that analysis on your behalf?

**Mr. Brian Cowen:** Well I think there's a record of a meeting ... maybe the 18 September, there's a memo of a meeting that took place between officials in Finance, the Central Bank including the Governor, the regulatory authorities, assessing the situation as it was developing ... a concern about, you know, there was a lot of commentary in the media about this. It was causing a lot of problems, people were calling into their bank branches looking for their money, you know people were wondering was their money safe. And, that was a public concern that needed to be addressed and addressed quickly. We hadn't ... at European level there was already discussion going on about trying to harmonise, or trying to co-ordinate all of these national deposit guarantee schemes to try and get some sort of a European norm if you like established. But obviously this issue had arisen for us in the context of those discussions being ongoing. I mean they weren't going to be resolved very quickly but there was this background policy development going on in the back at EU level. So we met on this point and I wasn't there myself, I don't know was Brian at it, but certainly the recommendation that came from that meeting was that we should increase the deposit guarantee scheme from €20,000 to €100,000. I agree that it was a bit larger than elsewhere. I think in UK it was £35,000, but in fairness within a few weeks most of them were up to the €100,000 mark as well. Most of them reacted ... we just reacted maybe quicker than the rest because it was coming to us quicker than the rest.

**Senator Michael D'Arcy:** Can I ask, Mr. Cowen, that in terms of the amount there was

now a €70 billion liability from ... I'm not sure what the liability was at €20,000 per deposit, but was there overkill? Did we all ... did the system or people working the system try to do too much rather than doing enough?

**Mr. Brian Cowen:** It's back to this point, it's back to this point-----

**Senator Michael D'Arcy:** And similar back to the night of the Guarantee also.

**Mr. Brian Cowen:** Well, it comes back to this point, it wasn't that did we do too much. It was a question of providing the reassurance to as many people as possible who, most of whom, I mean most ... the vast majority of individual deposits would be within that range. And they had worked that out as to what was the ... you know they had worked out how many people are we addressing here in the context of getting to €100,000. And ... because they looked I think at €80,000 and then €100,000. So they came to the considered view, "Look you need to get this to stop." People need to know that their banks, you know deposits are safe in their banking system. If ordinary people can't get that assurance, where are we going?

**Senator Michael D'Arcy:** But, Mr. Cowen ... just, that amount of money was doubled in-----

**Chairman:** If you're happy Senator, I'm moving on. I'm moving on. Sorry, Mr. Cowen.

**Mr. Brian Cowen:** No, €70 billion ... Sorry

**Chairman:** Eoghan Murphy.

**Mr. Brian Cowen:** Sorry, I take the point that ... sorry, one second, Deputy ... I take the point that it was a €70 billion contingency but, I mean, it had to be done. Were you going to say "we'll only cover €30 billion worth" and tell people, "take out half, we'll cover five grand's worth, or 50 grand's worth?" You know, you have to make the decision that we're standing behind the bank ... we're standing behind those deposits. If you don't do that, we're losing before we start.

**Chairman:** Deputy Eoghan Murphy.

**Deputy Eoghan Murphy:** Thank you, Chairman. And thank you Mr. Cowen, you're very welcome back. In your opening statement on paragraph 59 you talk about the ECB role in the guarantee decision and you state that "The position of the ECB ... was that no bank was to be allowed to fail". And we have this, that this came from Trichet through the Governor. How would you regard that position of the ECB, would you regard it as an order from the ECB or a threat?

**Mr. Brian Cowen:** Well, obviously they were ... the ECB is the authority that looks after the stability of the euro and they were saying if you're a member of this currency, the rule is all banks ... you're not to allow any bank of systemic importance to fail because the contagion effect of that is something that may not be able to be handled. So, in other words, if you were to allow that to happen then and not abide by that, apart from dealing with the problems you're going to have to deal with, which in my opinion would have meant a run on all your banks, would have made no sense. But even if you allowed it to happen, then you ... it would be very hard to find a co-operative ECB in the future to fund your banking system with liquidity.

**Deputy Eoghan Murphy:** But just to try and clarify that, is it an instruction that you have to follow or is it advice?

**Mr. Brian Cowen:** In practical terms I think it's ... if you know what your ... if you know what's in your best national interests, it is an advice you should listen to. It's not something you should discard.

**Deputy Eoghan Murphy:** You wouldn't view it as the ECB acting outside of its mandate to provide that advice?

**Mr. Brian Cowen:** No, because we were asking the question. We were asking the question of, is there any prospect of a European initiative coming here? Is there any prospect of the euro ... the European level interjecting here to try and see can we arrest the problem? And the problem was, as you know, probably people have all talked about it now is that, you know, at the time of the design of the euro in 1999 there isn't an EU competence ... there wasn't an EU competence on the supervisory side at that point. There is, thankfully, now and that's sort of a response to what's happened but at the time there wasn't.

**Deputy Eoghan Murphy:** Did this conditionality then affect the decisions that were ultimately taken on the night and also into the future?

**Mr. Brian Cowen:** Yes. Obviously we had to take account of that, yes ... To take that into account ... Now, it didn't make it easier for us but we had to take it into account.

**Deputy Eoghan Murphy:** Can I ask, should you have made an effort to inform the ECB what you were doing once that decision was taken, bearing in mind that I think the meeting started at about 6 p.m. in the evening, in the knowledge that something would have to be found in terms of a solution? Did you keep that channel open?

**Mr. Brian Cowen:** We didn't ... Well we ... I asked the member of the Governing Council, who was our own Central Bank Governor, what's the EU position here? That was one of the first things I asked, actually, what's the EU dimension? And unfortunately the EU dimension was, you're on your own. That was the EU dimension that night. And at that stage then I said, right, well if that's where we're at with them we better concentrate on what it is we can do. And it's ... I was conscious of the fact, by the way, that we were a sovereign Government, we had to make a decision as we understood it, as to what was in our national interest. I mean, I'm as good a European as the next person, but you know, at the end of the day we had to make a decision ourselves.

**Deputy Eoghan Murphy:** And you didn't feel an obligation to inform the ECB of that decision once it was made?

**Mr. Brian Cowen:** Well, once it was made the ECB were informed, probably early the next morning.

**Deputy Eoghan Murphy:** I think my understanding is that Mr. Trichet said that they heard of the guarantee through the media.

**Mr. Brian Cowen:** Well, I'm sorry if he wasn't rung before seven in the morning, but he ... they were certainly ... I mean, they were informed as quickly as logistically possible. Maybe not as soon as he would have ... maybe we should have rung him at four o'clock in the morning, I don't know, but-----

**Deputy Eoghan Murphy:** Should you have kept a constant line open to the ECB through the course of the evening as you were debating different possibilities that would have an impact



on other banking systems in the eurozone?

**Mr. Brian Cowen:** Well, you know, I don't know what other governments used to ring the ECB when they had a problem with their banking system. I don't know that Mr. Gordon Brown rings when he had a problem.

**Deputy Eoghan Murphy:** -----you rang the ECB prior to the meeting?

**Mr. Brian Cowen:** Well I think that, from our point of view, we had got the view of the ECB from the member of the Governor ... or, a member of the bank Governing Council. We were concentrating on the survival of our own banking system at that stage.

**Deputy Eoghan Murphy:** And in relation to the Commission, Kevin Cardiff told us that the Competition Commissioner was said to be hopping mad about the guarantee. Was any attempt made the next day in relation to dealing with the Commission and their response to the guarantee?

**Mr. Brian Cowen:** Yes, well as I was saying we had ... the Attorney General was very much seised of that question, both on the night and the next day and we got together some expertise to help us to put the case as to why we believed this was proportionate for the serious disturbance that had occurred and that we were under ... whatever it is, Article 87.3 ... that we were within our rights to do this given the magnitude of what was facing us and that it was proportionate and that we had ... and we had some advices that charging a fee, having a time limit and all of this was helpful. There were other cases where the Germans had sought to protect or to guarantee a bank earlier, not immediately earlier, but I read documentation on it where they weren't able to get the approval through because they hadn't put a time limit on it. So we ... and in fairness, we made the application and we met any concerns they had.

**Deputy Eoghan Murphy:** Take it forward, then, to 12 October 2008, which is the first ever meeting of the eurozone Heads of State. And Kevin Cardiff wrote in his long statement on page 77:

it was also evident that some governments had provided background briefings to journalists denigrating the Irish decision and its lack of community spirit. Worse than that, some of those briefings appeared to be deliberately seeking to question the validity and reliability of the guarantee.

Why, in your view, would other eurozone countries want to undermine the Irish guarantee and how real was that threat at that point in time?

**Mr. Brian Cowen:** I read that ... what he has said about that. I was the person who represented the country at that meeting. It wasn't an easy meeting for us, I suppose, because you know, we had to do what we had to do as others were doing their thing and they were afraid, I suppose, of the effect that this would have on their flows, you know, would Ireland suddenly become a location for funds to come to Ireland that would otherwise stay in country A, B or C or whatever it was. And I think that was an over-exaggerated view anyway. We were simply trying to retrieve what we had lost, we were not trying to take anyone else's resources or treasury, you know. We were trying to get back into a viable position ourselves from a liquidity point of view in terms of cash in the system. And we were a small part of the overall financial system in Europe anyway. So, I hear what he has to say about that, he obviously observed that from some of his official contacts in other jurisdictions. I don't think it was warranted, if that was their view.

**Deputy Eoghan Murphy:** I want to look, then, if I may, at the Dáil debate immediately following the guarantee decision. Because in that debate Michael Noonan asked if there was a solvency problem attached to the liquidity problem and I think he was the only person who asked that. Brian Lenihan never answered the question. But did any of your Cabinet colleagues ever ask that question?

**Mr. Brian Cowen:** I can't say that that before Michael Noonan raised it did any of my people in my Cabinet raise it, I can't say that for sure. I don't recall that.

**Deputy Eoghan Murphy:** Not in the course of the decision being made or immediately afterwards?

**Mr. Brian Cowen:** When the decision was made and we met on the Tuesday morning afterwards we ... the Minister for Finance outlined the basis of what had happened and obviously it had very dramatic effects and people were ... had been ... had phoned about early ... late the previous night. There was no dissension. I shouldn't ... I know Cabinets are confidential but there was no ... it was saying okay, if that's ... we had to go that road, we had to go that road. But the question of solvency, I mean we were ... we were dependent on the advice we were given on the night, that's all I can say about it.

**Deputy Eoghan Murphy:** Well can I just come back to that again, I want to come back to the ... it's Vol. 4, page 7, in the core booklets. It's the January financial stability issue scoping paper, which we discussed last week. You said earlier on this morning this was the longest liquidity squeeze since 1945. You said that about the September period. Nine months earlier in this scoping paper it said "If a period of illiquidity continues it is likely that an illiquid institution will move closer to insolvency." Then nine months later ... how long does that period have to be? We're in the longest period since 1945, before these solvency issues start to be questioned by-----

**Mr. Brian Cowen:** When you can provide sufficient eligible collateral to obtain liquidity assistance from your central ... from your European Central Bank, then you have ... you're demonstrating the ability to continue in this tight liquidity situation. We'd reached the situation in relation to Anglo Irish Bank then, where that ... they had run out of cash. So now you're next ... you're down then to some ... you're down then to ... do you let this illiquidity become an insolvency and let it go? What's the impact of that in your wider economy? It's devastating from the advice we're getting, okay. It is systemic and by the way, there was a lot of debate in subsequent years about whether it was systemic or not, Patrick Honohan makes it very clear it was systemic. He makes it clear that a guarantee was required, he has views as to the extension ... the extensiveness of it but he accepts it was required. So, you know, that's ... when you've reached that point you have to make these decisions and ... what I made in the point earlier as well, Deputy Murphy, is that post-Lehman's, post mid-September, that trigger point meant that the liquidity problem that was being managed - being managed with difficulty, but being managed - turned into a horse of a different colour altogether and that's a problem.

**Deputy Eoghan Murphy:** Okay, well then, just my final question if I may Chair. You talk about trusting the advice on the night, because that same scoping paper, on page 16, and this was written nine months previously to September, says that:

In a period of severe financial markets turmoil, it may be very difficult to determine the true worth of the bank's assets, including its net contingent assets. ... it is much more difficult for a central bank or a financial regulator to know whether the bank is just illiquid or

has become insolvent, especially in the light of the incentives a bank may have to disguise its true state of health from a central bank or financial regulator.

And earlier today you said no-one knew where anything was going, this was 1927 stuff-----

**Mr. Brian Cowen:** I was talking about the market for the future, the market response.

**Deputy Eoghan Murphy:** Yes, exactly, so this was severe, financial market turmoil in one view. So why did you trust the banks, but also why did you trust the regulator, given what this paper was telling you nine months previously, what it was warning you could happen?

**Mr. Brian Cowen:** Yes, well I mean it is true that in a, in a very turbulent market situation it is difficult to know what's illiquid and what's insolvent - maybe that's the point that they're making. But the fact-----

**Deputy Eoghan Murphy:** They are making the point at this part is, that you can't trust the information necessarily that the regulator or the Central Bank will have, because of the incentives on the parts of the banks to misrepresent their position.

**Mr. Brian Cowen:** Okay, well right, but it comes back to the point then, now first of all I'm making it clear we made the decision on the basis of the solvency of the system. We made that decision, that was certified to us by the regulator who is the statutory people who'd have that responsibility. Now that's the first point.

**Deputy Eoghan Murphy:** Just the point-----

**Mr. Brian Cowen:** Let me finish-----

**Deputy Eoghan Murphy:** It's just the point I made is you can't necessarily trust that information.

**Mr. Brian Cowen:** Okay, but listen if you're not going to trust ... you know, you've got to trust somebody in this situation Deputy and you've got to be able to say, you put it to your people, you put it to your Governor of your Central Bank, you put it to your regulator, you know ... you've got to say "Where ... what is your view on this as we speak? What do you think is the situation and what's your basis for saying that?" and they gave us the basis for saying that. Now, the point I'm making to you in turn, and I accept these are difficult situations, if it's insolvent, what do you do with it? If you let it go you're told "It's a disorderly wind-up and you're in bigger trouble." If you nationalise it you're taking on all the liabilities there and then anyway. So now you're taking on the losses. If you go with a temporary guarantee and a contingency and you hope the liquidity thing will sort itself out, you may well end up in a situation where you might have to provide some recapitalisation down the line but you will have a shareholding for it in a bank that's viable, or that bit of it that's viable.

You're trying ... these are ... you know, and I'm ... I know by the, you know, the questions you're asking me that obviously you, you know what you're talking about as well. I'm trying to explain, you know, you can't ... you've got to ... what's ... you can't kill everything with the one stone, do you know what I mean? You can't ... you've got to say "What is the most important thing here as we ... from where we stand?" And the most important thing from where we stood was, if there isn't cash got into this system pronto, now, immediately - if we don't get that in, this whole thing can go wrong on you.

**Deputy Eoghan Murphy:** Final question Mr. Cowen, why let it become a systemic risk?

Because in March of '08 you had the Governor of the Central Bank asking two pillar banks to lend to another bank and those banks said they would if that lending was guaranteed. You go forward to September, you have the exact same situation, also you're already ... you're also bringing in a system-wide guarantee for all the banks, it's now a system-wide problem. But an intervention could have been made, or could it not, in March with a particular institution, to protect the rest of the system?

**Mr. Brian Cowen:** Well there was no recommendation from the authorities to intervene at that point. There was a situation that was arising in relation to the liquidity of that bank for reasons which I have given earlier to Senator O'Keeffe. But the issue was, you know, there was no recommendation coming to us, from our advisers, that that is what you do in this situation. And you know, 20:20 is great now. It's great now but all I'm saying to you is that we acted on the best advice that was available to us. Was there a mistake in analysis? Yes there was. There was a mistake in analysis but at the end of the day, you know, that's ... we now know that. But even whether it was mistaken or not, on that night, what do you do if your system is running out of cash? That's the issue and we had to address that problem, because if you didn't address that problem everything was at risk, that's what a systemic risk is.

**Chairman:** Following on from where Deputy Murphy actually is on this, which Mr. Cowen, and it's just going back to your own opening statement, reference point 293 in it, where you're on about the analysis in consideration of the response to contrarian views, internal, external and so forth. And in line 293 you said "Taking all perspectives into consideration when the present was hard to assess and future developments hard to predict was challenging." Now, in your statement you explain this. Can you explain to us then as to why no contingencies, or there seems to have been no contingency in place for worst-case scenarios being requested from the Department of Finance during the period from late 2007 until shortly before the guarantee?

**Mr. Brian Cowen:** Well the worst-case scenarios that were being contemplated weren't even in the ball park of where it all ended up. I mean that's the problem and you're looking at a rise in interest rates to 2.5%. People said "That won't happen in the next six months, but we'll do that stress test for you anyway, we'll look at your impairment of loans as 0.03%, we'll move them to 0.1%." You know, all of these things are based on assumptions that were regarded as being within the realm of possibility but clearly, you know, no worst-case scenario met the once-in-a-century event that we were dealing with.

**Chairman:** Deputy Murphy referred to a document there, it was on your screen a moment ago Mr. Cowen, a confidential financial stability issues scoping paper. This document would appear to have been prepared for 24 January 2008. Are you familiar with this document?

**Mr. Brian Cowen:** I have it here in front of me, yes.

**Chairman:** Have you seen it before today?

**Mr. Brian Cowen:** I have, yes.

**Chairman:** Okay, when did you see it first?

**Mr. Brian Cowen:** When did I see it first? It was only around the time it was done up, I presume.

**Chairman:** Okay, and if I can maybe just familiarise other people with the document if I go through it. So the earliest point that you reckon was in around January 2008 on the document?

All right. Was the document effectively a policy paper for managing crises in the financial sector and did it facilitate any discussions in and around the 2008 period? I'll get to later in the year afterwards - so were you sitting around the table with officials debating the content of this document?

**Mr. Brian Cowen:** It was a scoping paper that was done to give an indication of what were the issues that needed to be looked at from a legal powers point of view, from an updating procedures point of views, from the point of view of how you would deal with a bank that ... if it got into trouble, all that sort of contingency planning-----

**Chairman:** All right, I just-----

**Mr. Brian Cowen:** -----scenario planning as they call it.

**Chairman:** -----I will just familiarise with the document again, at the end of paragraph 1 in the last ... basically what it says, the paper examines ... the paper examines these issues by reference to two key scenarios: a financial institution that is solvent but is experiencing liquidity problems and an institution that is insolvent or heading towards insolvency. It then goes on in paragraph 2 to talk about the term "constructive ambiguity", we might come back to what that actually means later on, and it then on the next page, it talks about scenario 1. This is what would happen if a financial institution ... so we now know that this is being discussed in early 2008.

Scenario 1 [is] An institution that is illiquid [or illiquid but in]solvent. If an institution is experiencing liquidity difficulties and has exhausted any opportunities for accessing liquidity in the wholesale [market] the first step must be for it to seek liquidity from the European Central Bank (ECB) in [formal] operations.

It talks about in the next paragraph, the role of CBFSAI in this situation, "The authority responsibility for the provision of ELA to an illiquid institution is CBFSAI." And then further down that paragraph just beyond halfway it says, "Therefore if there is any concern that a financial institution seeking ELA is insolvent, the CBFSAI would not be in a position to provide liquidity support without the question of some guarantee arising from the Exchequer."

Then on to the next paragraph 3.2 it says, "Department/Minister's role in this situation." It is quite explicit it says, "Traditionally, it would [not] be considered that the Minister for Finance does not have a specific role when an institution is illiquid but solvent and there is no legal role for the Minister in such an event."

We then move on to paragraph 4 and scenario 2, "**An institution that is insolvent (or approaching insolvency).**" And it says:

If a period of liquidity continues it is likely that an illiquidity institution will move closer to insolvency. As referred to above, it is important to note that, from the outset, any major financial institution drawing on ELA will be in very serious financial difficulty and is likely to be in need of rescue.

That lays out the agreed themes of scenario 2. And then rolling on to paragraph 4.3, it says:

**Role/Legal powers of the Minister in this situation.**

As outlined above, if a sovereign bank sought ELA, the [Central Bank Financial Services Authority of Ireland] CBFSAI would be legally prohibited from extending it. However,

if the bank was systemically important and the Government agreed to extend a guarantee to [its] liabilities, then this would turn it from an insolvent bank into an illiquid but solvent one (with the State bank guarantee backing up in its capital).

In layman's terms, the State is standing behind the bank, it doesn't matter how much illiquidity difficulties are in the bank, the State solvency de facto making the bank solvent. So CBFSAI could inject liquidity to prevent contagion effects into the wider system and this gives the Central Bank then the permission to get into the space.

It also talks about letters of comfort in the very last paragraph of that page, "Letters of Comfort' is a somewhat loose term used to describe a form of written assurance to lending institutions or others in relation to borrowing or other financial commitments where there is no statutory power to guarantee or where guarantees up to the statutorily authorised level have already been given." Very last line of that paragraph then, "The CBFSAI's view is that a letter of comfort from the Minister to cover CBFSAI's risks would not be sufficient for the [Central Bank and Financial Services Authority] to lend to an insolvent institution ... - a comprehensive guarantee would be necessary."

We'll then go on a very, very good number of pages, as I said, scenario 1 has a whole load of sub-headings on it, scenario 2 has a load of sub-headings on it, and then it goes to scenario 3:

**Unclear whether institution is illiquid or insolvent.**

This paper details two scenarios: ... a bank that is liquid but solvent [or a] bank that is unequivocally insolvent or unequivocally approaching insolvency (section 4).

Which was the option that you were facing on the night, Mr. Cowen?

**Mr. Brian Cowen:** We were facing a liquidity problem, an illiquid system of varying degrees, depending on what bank you were talking about, all of which were solvent.

**Chairman:** All of which were solvent.

**Mr. Brian Cowen:** Certified by the regulator.

**Chairman:** Okay. And option 3, which seems to have, which seems to be the very, very smallest part of the document, was option 3 on the paper when you were provided it in January or was that added later?

**Mr. Brian Cowen:** I'm sorry, option 3 relates to what again, Deputy?

**Chairman:** Scenario 3, "Unclear whether institution is illiquid or insolvent". Was scenario 3 discussed earlier in the year, in January 2008, or was that an option that was added in further in the discussions?

**Mr. Brian Cowen:** No obviously if it was in that paper at that time it was being thought of at that time. But the issue ... the point that I'm making to you is that the regulatory authorities informed us that we were dealing with a liquidity crisis in what were otherwise solvent institutions.

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

**Senator Sean D. Barrett:** Thank you, Chairman, and welcome back, Mr. Cowen. On page 1 of your witness statement you state that the focus of the work of the domestic standing

group became concentrated on Irish Nationwide Building Society as a result of negative news reporting that emanated from Reuters. In your opinion, does that reflect a worrying failing of the regulatory regime, relying on reports from an external news agency, rather than information supplied by the Financial Regulator?

**Mr. Brian Cowen:** Well I understand that the negative news report from Reuters was exaggerating, wasn't accurate, in relation to Irish Nationwide. As I understand it, they got Goldman Sachs to come in and do some work for them. And ultimately the regulator got Goldman Sachs to do work for Irish, for the regulator, when they were inside at Irish Nationwide. They looked at the top 30 loans in Ireland and in the UK and decided that there was value there over a period of time but obviously there were some problems. But not to the extent that the Reuters were saying, that they were insolvent; they weren't insolvent at that point, or at any point that I know of, up to then. And when we got the €100,000 deposit guarantee scheme in place, a lot of the deposits in Irish Nationwide were in respect of small depositors like that who left their money in and the flow that was coming out of Irish Nationwide stopped as a result of the deposit guarantee. It probably benefited them more than anyone else because there was a higher percentage profile of depositors in the small category, if you like, of under €100,000 than would have been the case with other ones. So, that's the first point.

The second point is, these agencies ... credit rating agencies and international news organisations who are close to the financial situations often have an influence that can be very detrimental to any institution, particularly a small institution like Irish Nationwide. But to answer the point about it coming to public notice if it was ... any notice that came to the authorities in respect of any institutions that were in trouble under the regulatory regime we had would deal with that, if you like, with the constructive ambiguity that the Chairman was talking about before. In other words, if you're out there transparent on something, if there's a problem it can be ... it can roll into a bigger problem than it actually is and you cause an insolvency when in fact it was a liquidity problem to start with. It's ... these financial issues, as you know, have to be dealt with with discretion. It doesn't mean that you're trying to hide things that people should otherwise know. It's a question of trying to manage it without it becoming a wider problem or bringing others into it that weren't in the trouble in the first place.

**Senator Sean D. Barrett:** You do refer in paragraph 258 of your statement that, you use the words "In the absence of specific problems being detected at micro prudential level." So we did have faults in the system, at micro-prudential-----

**Mr. Brian Cowen:** Yes.

**Senator Sean D. Barrett:** You've an important statement also point 177, you say, "The continuous increase in Central Bank (both Irish and European) funding also undermined the financial system as a whole." Was Irish banking becoming addicted to the medicine that was designed to cure a problem and did that allow the ECB to bounce you into the programme?

**Mr. Brian Cowen:** Well there was no doubt that the ECB came to a view at one of their meetings, I can't think of the date off the top of my head, I'll get it for later-----

**Chairman:** We're drifting into this afternoon, I don't want to get distracted there, so if we can maybe come back again, Senator, to this morning, and we'll deal with the afternoon session matters this afternoon, which is bringing us into the bailout side of things. A small amount of flexibility here, for sure, but we won't be dealing with-----

**Senator Sean D. Barrett:** Thank you, Chairman. The ELA, was that monitored by the Cabinet or did it come across us as a very sudden and unpleasant surprise?

**Mr. Brian Cowen:** No, I think it was obviously being monitored by the Department and the regulatory authorities all the time. But the question of at what stage ... there was a certain point at which the European Central Bank said, "Look, we have been as helpful as we can be for a long time here. This is emergency liquidity assistance, it's not, you're now on this emergency liquidity assistance for a time that's beyond the contemplation of what we expected, and therefore this question of the need to restructure has to come onto the table quickly." I think that's where ... in fairness to them ... that's where they're coming from. From our point of view we were saying, "Look, we're preparing, we are behaving in the right way, we want to get our public finances into order, we are producing a plan to do that. We're prepared to talk to you about a parallel or probationary programme if that will help ye guys to reassure ye guys that we're heading in the right direction here." Well, it suddenly became a situation where it was "Get into the programme."

**Senator Sean D. Barrett:** Yes, you used the ... words with Deputy Murphy, you were told "You're on your own", but they were in it too because, as you say, that increase in Central Bank support was both Irish and European. So would they not stay on board with you at that stage?

**Mr. Brian Cowen:** Well, they were prepared ... I mean, you know, Mr. Cardiff, I think, in his testimony has been able ... as only a public servant can, put a good balance on the benefits that we must attribute to the ECB in this situation. But from the political point of view, it was difficult for me because I felt that there were sources putting it about that the Government had made a decision which it hadn't then made and I think, you know, those democratic procedures should be respected even by bureaucracies, however powerful.

**Senator Sean D. Barrett:** Looking at the two banks which were in the worst trouble, should we not have had in the system, particularly in INBS ... that this had been building up over a number of years and it should have been brought to you, you know, from the regulator and from the Central Bank rather than have it be the subject of the Reuters' story that you had to then take account of and measures-----

**Mr. Brian Cowen:** Yes, well, it is true to say - and the Honohan report refers to this - that there was a lot of forbearance, it seems, in terms of issues that were coming up were taking a long time to get resolved. It was almost, you know, as if there was a trail of correspondence without decisions being taken and people putting counter-views to the regulator's requirements and this sort of thing. I mean, I agree that there ... it seems to be the case, based on Mr. Honohan's work and his report, that ... I'm not saying forbearance, that's probably the wrong word, I'm saying there was a failure to bring issues to completion ... regulatory matters to completion, one way or the other, as to what was to be the outcome. And it was, sort of, trails of correspondence going on for months and, in some cases, more than months, which seems to me to be ... not to be the most efficient way to operate.

**Senator Sean D. Barrett:** How can a Government respond to those institutional failures because it all ends up on the Taoiseach's desk?

**Mr. Brian Cowen:** Yes, well, I think we did respond in terms of, you know ... I recall when all this happened, we had the recapitalisation and the nationalisation of Anglo in January. If I may so, there was a Fianna Fáil Ard-Fheis in February, I think, and I made the point that we were going to change the Central Bank arrangements, that we were going to reintegrate the



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Central Bank and the Financial Regulator's department ... office, that we were going with the Canadian structure - the Canadian model - which had proven itself, probably uniquely, as having been the one democracy that I know ... one western country that I know that came through this crisis relatively unscathed because of the sort of regulatory culture that they had brought to bear over there. We were going for that sort of structure immediately. Now, we were saying "This is the way we want to go" because we weren't happy. I wasn't happy that we had ended up where we did but, at the end of the day, you know, as you say, the responsibility falls ... the political responsibility falls on our desk and I have to accept that and I do accept it.

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

**Chairman:** Thank you very much. The next questioner is ... Deputy John Paul Phelan.

**Deputy John Paul Phelan:** Thank you.

**Mr. Brian Cowen:** Can I ask, Chairman, are there many more? Just as a matter of interest.

**Deputy John Paul Phelan:** One more and then the wrap-up.

**Chairman:** One more and then we're wrapping up. I'm going to propose that we take a three-minute break there, please, to suspend and everyone will be happy with that.

*Sitting suspended at 1.54 p.m. and resumed at 1.59 p.m.*

**Chairman:** And, in resuming, if I can call on Deputy John Paul Phelan, please. Deputy.

**Deputy John Paul Phelan:** Thank you, Chair. Briefly at the start, Mr. Cowen, and you're welcome back, I want to refer to scenario 3 again on that document which we just had up, which is Vol. 4 of your core documents, page 16 ... the bottom of page 16. You have - today and the last day - outlined that you placed, I suppose, trust in the position of the Financial Regulator. And this is a document that was prepared for you ... prepared for the Department, when you were Minister for Finance, which we extensively referred to the last day. The bottom of that paragraph reads as follows:

In a period of [severe market or] severe financial markets turmoil [which, I think, we were certainly in September 2008], it may be very difficult to determine the true worth of the bank's assets including its net contingent assets ... it is much more difficult for a central bank or a financial regulator to know whether the bank is just illiquid or has become insolvent, especially in the light of the incentives a bank may have to disguise its true state of health from a central bank or a financial regulator.

Now, you've presented - the last day and today - that you placed faith in the regulator and in the Central Bank and yet your own Department of Finance document is explicitly warning at ... in January 2008 not to place faith - or maybe not to place faith but to question that faith - in the regulator and in the case of severe financial markets turmoil. Can you explain why ... why you didn't follow that-----

**Mr. Brian Cowen:** I suppose, in fairness, it's not asking me to follow that. It's saying, basically, that it can be difficult, maybe, to decipher which it is in the question of extreme market turmoil and that banks will be saying things to make it look as good as possible from their point of view. I think that's what they are saying. And what I am saying is that, you know, when you're in a crisis situation that we were in ... you know, I take the responsibility. Let me be clear, I'm taking responsibility for the decision. I made this point at the beginning of my

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opening remarks last time and yet it was suggested that “Oh well subsequently he didn’t take responsibility for the decision.” I am taking responsibility. People are asking me about other players who were there and I have to say that in a crisis situation you have to rely on the people who are ... who have the statutory responsibility in this area. I mean, what else do you do? What else can you do really at one level? You know, you’ve got-----

**Deputy John Paul Phelan:** I understand that.

**Mr. Brian Cowen:** So, my point is, you look at the situation, you see where the problem is and, as I said, you can’t ... it’s not possible to solve all the problems in one go sometimes. You have to take it stage by stage, step by step. What we had to do that night ... and, as I say, we were told that everything was solvent, was that we had to get cash into the system quickly and-----

**Deputy John Paul Phelan:** Do you accept - and I’m not trying to ... but my time is running out-----

**Mr. Brian Cowen:** Sorry-----

**Deputy John Paul Phelan:** -----that there was a warning-----

**Chairman:** You can ask that question. You’re grand.

**Deputy John Paul Phelan:** I have a lot of questions that I want to get through ... that there was a warning there from the Department at ... in January 2008 while you were still the Minister for Finance to question, at least, the advice you were getting from the regulator. I understand the argument you’re making that these people were in positions of responsibility and you had faith in them-----

**Mr. Brian Cowen:** Those people were being ... are mindful of that too. Do you know what I mean? They’re there assessing the situation and they are mindful of these things. It’s not that, you know, I was mindful of them and they weren’t mindful of it. They were mindful of this situation that was ... that had developed. And they were assessing the situation as best they could, based on the knowledge they had. Now, what I am saying about that is that people say, you know, “You should have had more knowledge”. Well, what I am saying is ... the following five weeks we sent in forensic ... or sent in accountants and we sent in valuers and they come up six weeks later... which if we had had it six weeks before, wouldn’t have changed that assessment. So, that’s the best way I can explain it when people are wondering, “Well, if you had a different assessment or a more detailed one before 29 September would you’ve come up with a different decision?”. I’m just looking at the evidence that’s in front of me-----

**Deputy John Paul Phelan:** Okay-----

**Mr. Brian Cowen:** -----and it seems to suggest that it wouldn’t have been a substantially different decision-----

**Chairman:** Time-----

**Deputy John Paul Phelan:** But, again, I’m just going to refer - this is my final question on this - this evidence which is in front of me, which was presented to you by your Department; or you were involved in discussions around it, in January 2008, which specifically spelled out that you should adopt a more circumspect approach to the advice you were getting from the regulator. Do you-----

**Mr. Brian Cowen:** Well, we did. But, let's be fair now, Deputy. You look at these, sort of, paragraphs in the scoping papers of nine months ago and tell me that, you know, you should have had that beside you when you were doing the crisis or trying to act. I'm not saying you're saying that but I'm just trying to put the thing in perspective. You know, you can be mindful of all those things, at the end of the day, you've got to make a decision. And you've got to make a decision based on your best assessment, based on everything you've heard. Now, people can have genuine points of view about what that right decision was, even with the information we had. I'm not arguing about that. But I'm saying ... I'm giving you the rationale for what we did, why we did it and on what basis we did it.

**Deputy John Paul Phelan:** Thank you. I want to turn now to Vol. 2 of the core booklets, at page 66. It's a letter from Mr. Alan Gray to Kevin Cardiff on 25 September 2008.

**Chairman:** It's in the documents is it, Deputy, is it?

**Deputy John Paul Phelan:** It's in Mr. Cowen's document, Vol. 2, page 66 ... letter, 25 September ... it's an unusual letter, I think it's fair to say. There's an extensive PS at the end of it which I have rarely seen in such documents. But, Mr. Gray wrote to Mr. Cardiff advocating a guarantee and strongly opposing nationalisation in the subsequent ... there's a two-page document attached to that particular letter. Were you speaking with Mr. Gray at that particular time? That's three or four days before the guarantee decision was announced?

**Mr. Brian Cowen:** I don't believe he was proposing ... first of all, I'll come back on that in a second. He wasn't proposing a guarantee here, he was giving ... this was as a result ... as a member of the Central Bank, giving a view to them as a result of some briefing, I understand, that was given by the Department to the Central Bank. So, what he is doing here is he responding ... giving some thoughts as to what should happen. He gives ... if you go onto the next page ... I can see the front page. Can you go onto the next page?

**Deputy John Paul Phelan:** He outlines a series of-----

**Mr. Brian Cowen:** Yes, well, that's a different thing to what you just said now. You know-----

**Deputy John Paul Phelan:** Not quite. Now, in fairness-----

**Mr. Brian Cowen:** Sorry, can we move it on, Chairman? Just ... I want to see it. The next page-----

**Chairman:** Sorry. Okay, the next page.

**Mr. Brian Cowen:** Okay. So, basically he outlines-----

**Deputy John Paul Phelan:** He outlines the options-----

**Mr. Brian Cowen:** -----various things-----

**Deputy John Paul Phelan:** -----and, as you will see, one option gets significantly more attention than all the others. It's very clear from ... the State guarantee of all loans and banks incorporated in Ireland gets-----

**Mr. Brian Cowen:** Yes, well, I think the best thing ... you'd better talk to him about that.

**Deputy John Paul Phelan:** -----twice as much as all the rest of them do.

**Mr. Brian Cowen:** I'm not ... you know, I ... I'm not taking a view on any of that. Maybe there's more issues arises as a result of that, I don't know. But the point is, I had been in touch with Alan Gray but I never discussed the question of a guarantee with him until the night of the ... okay, because that was the only time we actually came down to decide we are going to do a guarantee.

**Deputy John Paul Phelan:** I think today is the first statement by you that he was the last person that you did speak to before the final decision was made on the ... in that phone call. If he had given you other advice on that particular evening, you know, would that have had a ... would that have lead to a different result?

**Mr. Brian Cowen:** I'd take whatever advice he had and sort of input it back into my own thinking as to whether it's ... whether I need to modify ... whether I need to change where we are heading or what we are doing. I mean, I was saying to him:

Look, we have a guarantee decision, or a variant of that, seems to be on the table. A nationalisation plus guarantee or a guarantee, that seems to be where things are at here. What's your view in terms of what would we need to be watching out for if we go down the guarantee route anyway?

And he tells me what he ... and I say, "That's grand, thanks". But I didn't ... we hadn't made any decisions at that stage. I was simply asking, are we, you know, getting an outside view on the context of a meeting at that point saying, "If we were to go down the guarantee route, what do you think? What should we be considering? What do we need to be looking out for?" Because, obviously, it was a big decision and he talks about state aid rules, he talks about, you know, the fact that some would be at an advantage compared to others ... there was a state aid issue there. Make sure it's time limited and make sure they pay for it. In summary, that seems to be what he's saying.

**Deputy John Paul Phelan:** There's a slight difference. He gave his opinion of that conversation to *The Irish Times* in 4 January 2011. You stated today that you asked him what he thought of the guarantee option being used. He stated that you rang him to obtain his views, as a director of the Central Bank, on likely market reaction'. They are not quite the same.

**Mr. Brian Cowen:** Well, I mean, obviously, market reaction is part of it too. But he was a member of the Central Bank and I was ringing him to say, "Look, if we go down a guarantee route, what are the issues we should be mindful of and how would the market react to that?" I'm not getting into a ... semantics about it. It's ... I have explained why it is I'd be looking an external view at that point because we had had a long discussion internally and we were coming down to one or the other ... two or three options and that was-----

**Deputy John Paul Phelan:** The reason I'm asking ... and I think you took me up wrong the last day, I wasn't really casting any aspersions on Mr. Gray but I do think that many people in the general public don't know that he was a significant player. I've two other examples of other letters which I won't go into now, Chairman, on page 62 ... 61 of Vol. 2 and page 125, Vol. 4 ... of letters which he wrote - of a very friendly nature - to Mr. Cardiff outlining his position. Really what I am asking is, what authority, what role did he have to be writing to the acknowledged senior official on banking in the Department of Finance - at the height of the biggest banking crisis the State had - giving his advice? Was he on the payroll or what was his capacity-----

**Mr. Brian Cowen:** No

**Deputy John Paul Phelan:** -----to be offering this sort of advice at that particularly crucial juncture?

**Mr. Brian Cowen:** He wasn't, he wasn't, he wasn't, he wasn't on any payroll. But, you know, he's a member of the Central Bank who has experience and expertise or has, you know, an economic expertise in this whole area, and he's letting the Department know his views. Now you can take them, you leave them, you can do as you wish with them. He's setting out, as I see it, to Kevin Cardiff, "Here's some views. You were in talking to us and the Central Bank about this, that and the other, about where things are at. Here's my views on it." And there's nothing prescriptive about it. He's giving his view as to what the pros and cons are, what you'd want to watch out for if you do this, that or the other. And that's simply a ... that's a conscientious-----

**Chairman:** You can only analyse that to a certain extent.

**Mr. Brian Cowen:** I regard that as a conscientious member of a Central Bank doing his job in terms of-----

**Chairman:** Final question, Deputy.

**Mr. Brian Cowen:** -----letting them know what he thinks. That's all he's doing.

**Deputy John Paul Phelan:** My final question. In relation to the area of recapitalisation, in answer to I think Deputy O'Donnell earlier, you spoke that eventually we would move to the recapitalisation phase. You chaired the discussions obviously on the night of the guarantee. Did you ask either of the two banking representatives, either of the two institutions that were represented on the night, their view as to potential taxpayer funded recapitalisation, in light of the fact that you may have seen the evidence earlier that two weeks after the guarantee decision was made, Bank of Ireland in their minutes at their board meeting, were acknowledging that there was a significant prospect that State money would have to be injected? Did you ask, as chairman on the night, the position of the banks in question?

**Chairman:** Deputy, I'm going to push you on a question now because we're running out of time.

**Deputy John Paul Phelan:** Do you think that that-----

**Chairman:** The evidence should be up on the screen and all the rest of it. Ask a question and we'll move on.

**Mr. Brian Cowen:** No is the answer, I didn't ask.

**Deputy John Paul Phelan:** Why didn't you?

**Mr. Brian Cowen:** Because they just came in, as I was telling you, to give their views. They gave their views on the present situation that day, the market situation, their assessment of the market situation and all the rest of it. They gave their views. They're entitled as two people to come in, if they wanted to come in, and say that. But they weren't participating in any decisions.

**Deputy John Paul Phelan:** Why that failure? That's really what I'm hitting at.

**Mr. Brian Cowen:** It's my failure.

**Deputy John Paul Phelan:** I mean, in light of the fact that the taxpayer has had to inject

significant billions-----

**Chairman:** Ah, you're not going into polemics now. Just put the question, Deputy, put the question.

**Deputy John Paul Phelan:** Those recapitalised ... no ... I'm trying to put the question.

**Chairman:** Yes indeed and you're out of time. So I'm allowing you please.

**Deputy John Paul Phelan:** That the recapitalisation occurred in the next following few months, they were discussing it at board level two weeks later. Why didn't you ask that question on that particular night?

**Mr. Brian Cowen:** I didn't have to. I mean-----

**Chairman:** Sorry, the-----

**Mr. Brian Cowen:** -----the question, what we were doing in two weeks, three weeks later was the Minister for Finance was arranging to sit down with the bank executives, telling them that the ... that given market ... the way the market looked at capital ratios now, they needed to get more capital into their banks. And he was looking for them to go and raise money to do that.

**Deputy John Paul Phelan:** I'm talking about the taxpayer capital?

**Chairman:** I'm sorry, I need to bring other people in here now, because we're into the realms of speculation-----

**Mr. Brian Cowen:** The first ... yes, well, I'm just ... okay.

**Chairman:** -----what might be happening in a couple of weeks. Minutes being discussed aren't actually in here, Deputy-----

**Deputy John Paul Phelan:** Sorry, that's not the case-----

**Chairman:** Sorry, Deputy, please. Don't interrupt me now. We're discussing matters here where there are actually ... where minutes are being discussed. They're not actually up on the screen. They're not actually available here. I don't know if they've been provided to the witness.

**Deputy John Paul Phelan:** I'm referring to the evidence that was given to the inquiry already by Mr. Goggin and Mr. Burrows.

**Chairman:** Yes and-----

**Deputy John Paul Phelan:** It's been asked of several witnesses, it's been covered in extensive media coverage of the inquiry.

**Chairman:** Yes and Deputy-----

**Deputy John Paul Phelan:** And I'm asking the man who chaired the meeting did he ask a question.

**Chairman:** Deputy, as you know better than I do, because you have to prepare a lot more questions than I do for these events, the situation always is, if you're going to be putting a question, and whether it is evidence from other hearings, prepare the witness by actually having it

referenced in advance. Okay? So I'm just giving you a small bit of latitude here.

**Deputy John Paul Phelan:** Yes, yes.

**Chairman:** And I'm going to wrap it up then. Deputy.

**Deputy John Paul Phelan:** That is my question. Why on the night in question, when you were chairing ... I'm not talking about capital injections in general, I'm talking about taxpayer-funded capital injections. Why wasn't ... why didn't somebody ask that question? Because that's ultimately how the ... what the taxpayer was put on the hook for?

**Mr. Brian Cowen:** That was an issue ... that was an issue that Government subsequently had to consider when it became clear that they weren't being successful ... well, one or two were, but they weren't being successful in raising capital themselves. That was then an issue that we had to consider. And then we got into the policy detail of what is it that we would need were we to put money in? And how would we go about it? And that's ... and you know the results of that.

**Chairman:** I'm now moving to wrapping things up. I'm going to invite Deputy Doherty and then Senator O'Keefe in. I just want to ask one question in terms of recommendations and the final report that we'd be working towards, Mr. Cowen. And that is on the situation of Anglo and maybe you offering a view as to when would have been the optimum time to intervene in some way, whether with Anglo Irish Bank, considering that it was a main issue in September 2008, and one of the motivations for the banks to be seeking to meet with you, that in that regard, and bearing in mind that no bank was lending to it later in the year, and bearing in mind that the share price had actually been wiped out, when would be the optimum time for the Department of Finance and Government have been to make an earlier intervention and an intervention of what type with Anglo?

**Mr. Brian Cowen:** I don't know the answer to that. I mean, what I'd say to you is you'd only take on a nationalisation if you had to take it on. That would be my view. You don't just decide, "We'll just ...let's just take on ... let's take over an institution." You'd take it on if you had to take it on. And by the time it came to us when we took it on we had no other option but to take it on.

The question then is back to your view of the nationalisation. Do you want to take this on to your books straight away without looking at it further, considering it further? Or do you want ... and if, for example, there hadn't been these other issues that arose that drove the nationalisation, made it inevitable, the question was arising, what was the percentage that we needed to take for any recapitalisation money we were putting in? Now, clearly it was after ... it went totally way beyond where anyone was at subsequent to that, and clearly a nationalisation became obvious, and it became obvious with others as well. I mean, AIB, who had been in on the night saying, "You better do something with Bank X." I mean we had to something with them which was quite significant too and they didn't seem to know, obviously, the position they were in themselves, quite apart from giving opinions about everyone else.

So my view, if you want my view of what it's worth, is you only nationalise a bank where you have to nationalise a bank. That's my position. You don't take on that asset and liabilities willy-nilly. You need to have a pretty considered position on it. That night I didn't think it was appropriate, because I was afraid that if ... you could look at it either way, but I was afraid that it would indicate further nationalisations on the way pretty quickly. And then you were in a very

difficult situation, in my opinion.

**Chairman:** Thank you. Deputy Doherty.

**Deputy Pearse Doherty:** Thanks. I want to go to Vol. 4 of the evidence books, page 45. And I want ... you were at this meeting, Mr. Cowen. It's a meeting dated around 25 September 2008, and it's the note we've referred to on numerous occasions in the committee. It's the note of the minute of the meeting. It talks about the Financial Regulator saying there is no evidence to suggest that Anglo is insolvent on an ongoing basis. But then follows on to say, "D[avid] Doyle noted that Government would need a good idea of the potential loss exposures within Anglo and INBS - on some assumptions INBS could be 2bn after capital and Anglo could be 8½ [after capital]." Is that not the first suggestion that there were loan losses in both of those banks? Or what ... an early suggestion?

**Mr. Brian Cowen:** It was setting out some sort of a scenario, all right, to see if that was going to be ... would it get to that. But I'm not so sure ... are you saying "after capital"?

**Deputy Pearse Doherty:** That's what the minute says. But regardless if it's after capital or before capital and that's been disputed by certain people, does it not suggest that there are substantial loan losses running in the billions of euro in two of these financial institutions, on some assumptions?

**Mr. Brian Cowen:** On some assumptions it was certainly the case that there was going to be eating into capital, yes.

**Deputy Pearse Doherty:** Okay. And were you aware that INBS was locked out of the market since March of that year, 2008, at this point?

**Mr. Brian Cowen:** Well, we were aware that INBS were having real difficulty, yes.

**Deputy Pearse Doherty:** So if INBS were to lose the likes of €2 billion, which is suggested by David Doyle on some assumptions, would you have been aware that it would be extremely difficult for them to get back into the markets to raise that capital, given the fact that they've been shut out for six months prior to that?

**Mr. Brian Cowen:** If it came to that, if it came to that.

**Deputy Pearse Doherty:** So if there were losses of this nature would it not be the State that would have had to step in?

**Mr. Brian Cowen:** If you nationalise it the State has to step in.

**Deputy Pearse Doherty:** No, I'm not saying nationalise.

**Mr. Brian Cowen:** Okay.

**Deputy Pearse Doherty:** Even if you were guaranteeing it?

**Mr. Brian Cowen:** Yes, but ... well, you see, well, obviously, I mean, you didn't know what the outcome of that was going to be but it's back to my point. You've got ... what is ... what were you trying to do on the night in question? You were trying to get the cash back into the system. And that was ... that was our point.

**Deputy Pearse Doherty:** But the question I asked you earlier on was when was the first



indication or suggestion that capital may be needed for the banks? And you talked about the PwC report in November. What I'm saying to you, is this not a suggestion that capital may be required by banks which were locked out of the capital markets for months at that stage, or at least one of them was locked out, and therefore the inevitability of the State having to step in would be ... is that not the case?

**Mr. Brian Cowen:** Well, my understanding was that it would have eaten into the capital of the Irish Nationwide but that it wouldn't end up in a situation where you'd have to nationalise it at that point. That was my understanding.

**Deputy Pearse Doherty:** Well, the Irish Nationwide had capital of just in excess of €2 billion, so it wouldn't necessarily be insolvent under that, but you would need to take it back up to the capital regulatory capital requirement. Wouldn't that be the case?

**Mr. Brian Cowen:** Yes, obviously if, if there was a recapitalisation programme to be drawn-up subsequently and it ... that, that loss or that eating into the capital had taken place, then you'd be in that position where, where Government would have to consider that-----

**Deputy Pearse Doherty:** Okay. Can I go to ... can I go to David Doyle's testimony to the banking inquiry, on page 115, and David Doyle, under questioning by myself, talked about there was a consideration that illiquidity would rapidly become insolvency, this is on the night of the guarantee. But, I pushed him in relation to, setting aside that risk of an illiquid bank becoming insolvent, was there an analysis, from some financial institutions or others, that the bank themselves, given their loan losses, could be insolvent in the future? And he responded, and he says:

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

So the argument that they should be nationalised related to the concern about the quality of loan book. Isn't that not the case, the reason why Minister Lenihan and Kevin Cardiff was arguing for nationalisation of the bank as opposed to a guarantee, is because they were concerned that there was loan losses within Irish Nationwide and Anglo Irish Bank, that a guarantee, while solving the liquidity problem, would not solve the loan losses that were emerging in those two institutions?

**Mr. Brian Cowen:** Yes well, I don't think it was ever being suggested that the guarantee was going to provide the omnibus solution for what was going on in the banks. Recapitalisation would have to come up on the table at some stage. So, you know, so I, you know, we weren't saying this is a solution to the problem. This is getting the liquidity back into the system.

**Deputy Pearse Doherty:** Yes.

**Mr. Brian Cowen:** And, we believed that if there was to be a nationalisation of a bank to take place, that you'd need a bit more information than just deciding that's what we're going to do tonight.

**Deputy Pearse Doherty:** But, what I'm ... the point I'm making, Mr. Cowen, is if this was simply just a liquidity problem there would be no sense on anybody arguing to nationalise banks on that night, if you were going to give a guarantee to the other institutions, because the guarantee should solve, at least temporary, the liquidity problem. The reason that there was two very senior individuals, the Minister for Finance and the probably most experienced person in

the Department of Finance, arguing for nationalisation, is because, as, as David Doyle himself said, there was concern about the quality of the loan book. And the issue of potential insolvency in relation to those, reflected the debate around nationalisation, as opposed to a guarantee. Was that not what was at the centre of this?

**Mr. Brian Cowen:** Yes well, there would be ... there would be ... there probably would be worry about the loan book, not just in those ... but, just, taking those alone, but, I mean, the issue then was, if you were to go ahead and nationalise as a result of that, what would be the wider impact on the system? So, if you ... you know-----

**Deputy Pearse Doherty:** I'm not-----

**Mr. Brian Cowen:** But that ... but that ... but, see, what I'm trying to say to you, Deputy, is you ... you've got to look at it in the context of what it was you were trying to achieve.

**Deputy Pearse Doherty:** I, I understand, you've, you've given the context of why you did not support the nationalisation.

**Chairman:** I will let you back in Deputy then and then we will wrap up. Mr. Cowen.

**Deputy Pearse Doherty:** The point I'm trying to get to, Mr. Cowen, is, was that not the, the background to the debate about nationalisation of those two institutions, as opposed to liquidity? The reason I'm saying this is because at the meeting that night there was a, there was a viewpoint expressed that there was loan losses in those two institutions-----

**Chairman:** I'll have to bring you back in. Once more I'll have to ask you to stop talking now.

**Deputy Pearse Doherty:** -----and that you were aware of those potential loan losses.

**Chairman:** Mr. Cowen.

**Mr. Brian Cowen:** Well, I was aware, you know, like ... we were all aware that it could be ... there could be a loan, there were obviously going to be some loan losses in these banks, given where were at. But, we were ... were not aware of the fact that we were going to end up with an insolvency situation the way we did and we were certainly not aware that we were going to have the loan losses of the magnitude that we had. That was certainly not on the table. And then, therefore, to just ... I'm just coming back, just for the purpose of confirmation, the issue on the nationalisation question was, what is likely ... what way is that likely to be taken by the markets if you do it now? And that's the story, and if ... will that bring more money into the system or would it mean less money coming back into the system? And, first priority is get money into the system.

**Chairman:** Okay.

**Deputy Pearse Doherty:** Thank you.

**Chairman:** Thank you. Senator?

**Senator Susan O'Keeffe:** Thank you. Document AIB 02291, I think I gave it ... this morning. This is evidence, Mr. Cowen, that Mr. Gleeson gave when he was here. He gave it as a contemporaneous note, but he also gave it in evidence, and he basically said that on the night the Governor of the Central Bank asked him and Bank of Ireland to assemble-----

**Chairman:** Has this been furnished to the witness or has he been given notification that this document would be coming up?

**Senator Susan O’Keeffe:** No, because it’s come up, well, let Mr. Cowen-----

**Chairman:** Yes well, no, I ... I just need to be fair to witnesses coming in, and if Mr. Cowen is prepared to go over it ... but as a standard rule, if you’re going to be putting documents up in front of witnesses, you should, by practice, have them with some level of familiarity with it.

**Senator Susan O’Keeffe:** I appreciate that, but in fairness, it’s arisen based on what Mr. Cowen has said this morning. He has several times said that he took his advice from the Governor of the Central Bank, isn’t that correct, this morning? That ultimately ... now, I’m asking why, on the night, Mr. Gleeson said that he, and the Bank of Ireland, were asked very clearly to assemble €5 billion each, I think, on ... he says on the foot of the very clearest representations from the Central Bank Governor, made in the presence of the Government, and he says, in fairness, although not endorsed by the Government, that an orderly dealing with Anglo would occur at the weekend. So, I’m asking Mr. Cowen, why is it that Mr. Gleeson recalls from the meeting, that the Governor was advising “Give us the money so we can keep Anglo going to the weekend and then we’ll deal with it?”

**Mr. Brian Cowen:** No well, he wouldn’t ... sorry, I’ll answer it.

**Chairman:** Okay, you can, Mr. Cowen.

**Senator Susan O’Keeffe:** Clearly.

**Mr. Brian Cowen:** I’ll answer you on that. Okay, no problem. Well, he’s not correct if he’s saying that the Governor of the Central Bank position was that we would nationalise Anglo Irish Bank. That’s not correct.

**Senator Susan O’Keeffe:** No, he says that an orderly dealing with Anglo would occur at the weekend, in other words, we’re not going to make a decision about Anglo tonight, we’ll wait ‘til the weekend if you can give us the money.

**Mr. Brian Cowen:** I don’t know, I don’t know. I don’t know, I can’t answer to that, to the extent that he was very clear in his ... in his analysis at the meeting that I attended. And, the meeting ... what he’s talking now about the Governor, that may be in respect of this question of supporting Anglo if needs be tomorrow, and ... and having money available to do that. So, he ... so, obviously the guarantee meant that that wasn’t required.

**Senator Susan O’Keeffe:** But, I think it’s-----

**Mr. Brian Cowen:** But were the guarantee not to work and you still had no cash in the bank we didn’t want the bank to close. So we wanted to make sure that there was arrangements made for liquidity to be available. And they were very cautious about that and put in certain conditions that you’re talking about. So-----

**Senator Susan O’Keeffe:** Because Mr. Gleeson says they withdrew to gather up the money because, his understanding was, it would be to tide Anglo over to the weekend, and-----

**Mr. Brian Cowen:** Well that was his understanding, maybe that was his ... yes, I know that-----

**Senator Susan O’Keeffe:** Well, no, he says the Governor told him that.

**Mr. Brian Cowen:** -----but, let me explain it. Maybe that was his understanding because he thought we were going to follow what he was saying.

**Senator Susan O’Keeffe:** No, he says it was on the clearest representation from the Central Bank Governor.

**Mr. Brian Cowen:** Yes, as regards getting the money. But, the point I’m making to you is, that ... I can’t speak for Mr. Gleeson, I can only speak for myself. Probably that’s the best thing to do. And, the best thing I ... and what I can say to you is that there is no doubt, whatever, Central Bank Governor was recommending a comprehensive guarantee of the system.

**Senator Susan O’Keeffe:** The lack of stability at Anglo Irish Bank that resulted from the contracts for difference and the attached loans, did you take that into account yourself, when you were making the decision that the bank would not be nationalised, but would be guaranteed?

**Mr. Brian Cowen:** No, that wasn’t a consideration. The only consideration on the night was financial stability of the State and of the banking system.

**Senator Susan O’Keeffe:** And Anglo’s stability in that, given that it was unstable as a consequence of what had occurred, were you thinking, “well a nationalisation of the bank would be a less good outcome than if I-----”

**Mr. Brian Cowen:** Well, of course, we had been informed earlier that year, earlier that autumn, that this matter was being ... had been resolved by the bank. This question of the overhang of shares, Mr. Quinn had been resolving it.

**Senator Susan O’Keeffe:** And, you were happy that it had been resolved?

**Mr. Brian Cowen:** Well, we were told by the regulator that it has been resolved. It was a regulatory matter.

**Senator Susan O’Keeffe:** Fine, okay. Can I be clear, you’re saying to us, over the course of today, that ... that over this period of time, in what was probably the worst crisis in the history of the State, that ... that no one, no bank, no individual, no company, no corporation, no politician, no consultant, no friend, no enemy lobbied you, or indeed any of your colleagues in Cabinet, or the Minister for Finance, nobody lobbied you for a guarantee, for nationalisation, for their preferred outcome? No one-----?

**Mr. Brian Cowen:** All of the financial community, all the financial institutions would be dealing directly with the ... with the Department of Finance. The Minister for Finance had been meeting the institutions, as you know, as would be his job. The Government, as a government, was not lobbied, I was not personally lobbied by anybody.

**Senator Susan O’Keeffe:** Do you find that surprising, given that it was the worst crisis in the State?

**Mr. Brian Cowen:** I don’t to the extent that, maybe, except people know me. People know me. I wouldn’t regard it as appropriate. If people wanted to see me about anything, they’d be sent down to the Department of Finance. It was the right thing to do, or if someone talked to me about overhanging Quinn shares, they went down to the regulatory authority. I don’t ... you

know, that's the way I operate.

**Senator Susan O'Keefe:** Finally, I have one last question on No. 88 in your own statement, Mr. Cowen. When you were talking to Mr. Lenihan, you say: "I explained my reservations about it [meaning nationalisation] explained my reservations about it and reassured him that nationalisation was something that we could not rule out in the future and would remain an option available to us." So if it was to remain an option available to you, why not exercise the option then? Why go for a guarantee with the nationalisation opportunity still there?

**Mr. Brian Cowen:** Because I did not see it as a matter .. I didn't see it as a first resort issue. I said we would need to get a lot more information before we talk about nationalising a bank and we sent in people-----.

**Senator Susan O'Keefe:** But didn't you need the same information for a guarantee?

**Mr. Brian Cowen:** Yes but the guarantee ... as part of my consideration of the guarantee issue was the fact that the Governor was telling me in this emergency situation that we needed to guarantee the system. Now the point is I'm making the point to them ... the point I was trying to make as well at that time was, if we do something in an intermediate step here and it doesn't work, how will it look if I didn't take the advice of the Governor of the Central Bank? Now I knew it wasn't unanimous but, you know, there were variants of the same thing going on and I said, "I have to go with the Governor of the Central Bank on this."

**Senator Susan O'Keefe:** So he was your key man?

**Mr. Brian Cowen:** I think in any emergency like that, you'd have to say the Governor of the Central Bank is a key man.

**Senator Susan O'Keefe:** Thank you.

**Chairman:** Okay. Thank you very much. With that said, I now propose that we suspend until 3.30 p.m. In doing so, I'd like to remind the witness that once he begins giving evidence, he should not confer with any person other than his legal team in relation to evidence or matters that are being discussed before the committee. With this in mind, I now propose to suspend until 3.30 p.m. and remind the witness that he is still under oath until we resume. Is that agreed? Agreed

*Sitting suspended at 2.32 p.m. and resumed at 3.39 p.m.*

**Chairman:** As the committee is back in quorum, I now propose that we go back into public session. Is that agreed? And the Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. And in doing so, welcome back - our witness today is Mr. Brian Cowen, former Taoiseach and Minister for Finance. In this afternoon's session, we'll broadly focus upon Mr. Cowen's tenure as Taoiseach from January 2009 until the general election of early 2011.

Mr. Cowen, if I can maybe just deal with a couple of matters that are outstanding from the morning and then we'll get straight into this afternoon's business. You were discussing earlier this morning the issue of junior bondholders and their inclusion in the guarantee. Could you tell us was there a discussion with junior bondholders with Mr. Lenihan when he was still present on the evening? Was the decision made with the Minister still present or was that decision

made after Minister Lenihan had departed? And could you also explain to the committee the reasoning behind the including of junior bondholders in the guarantee?

**Mr. Brian Cowen:** Okay, Chairman. Well, I've made ... in my comment, I've made the statement that Brian ... Brian Lenihan subsequently told me some time later that he hadn't been in the room when the junior ... when that decision was taken, and I just wanted to have that recorded because he did say it to me. Regarding that, I mean, my ... everyone's recollection is slightly different, I suppose, in terms of what you remember but the question of junior bondholders came up in the context of looking at the Merrill Lynch stuff as well because it was ... they seemed to suggest that it should be included, talked about the possibility of cross-collateral, cross-default etc. There was also the view that the number of ... the pool of investors for Irish bonds is relatively small compared to other large countries and therefore, some of them may be in the category of subordinated and senior bondholders. But I took the ... I take the point that it was, in the normal ... if it was normal conditions, you wouldn't be considering including even dated subordinated bondholders. Undated subordinated bondholders were left out of the equation. The fact that I remember, as I say, specifically a conversation that I had with the Central Bank Governor about it where he mentioned that they were a very small part of the overall amount that was being considered, about 3%. This question of giving clarity to the market the following day was given a very high premium. Even when we had sort of done the deposit guarantee scheme there was queries coming in about ... there was ... surprisingly since it looked like a very simple arrangement. The amount of queries that people have on these things would surprise you sometimes but ... so they were saying that people ... in the interests of clarity, in the interest of total understanding by everyone where we stood that we should include them, taking all things into account. And what I would emphasis is the volatility in the market was such that it was felt you shouldn't restrict market access for Irish banks from any source, even one that would normally not be included in a guarantee in normal circumstances.

**Chairman:** And on the two earlier questions, was that ... was that issue discussed in Minister Lenihan's presence and was the Minister still present when that decision then was ultimately made?

**Mr. Brian Cowen:** Well, there was some discussion, I think, taking place. Certainly Brian was ... the Minister for Finance was there when the banks were there, and some of the evidence given by others suggested that this issue was mentioned there but it may have been the case that we didn't make a formal decision on it while he was there, that maybe he had gone at that point. So I just wanted to, in fairness to him, make that point that he said that to me some time later. So it wasn't a week or two later, maybe some time later.

**Chairman:** Was it made later that night when the Minister had-----

**Mr. Brian Cowen:** No. Sorry, was the decision made?

**Chairman:** Yes.

**Mr. Brian Cowen:** Well, the decision was made ... yes, I mean, it was made ... it was discussed beforehand and I think what happened was that late at night when, maybe, Brian had gone home, as he says, in order ... because he'd an early start the next morning, a clarification may have come into the room saying ... that dated subordinated bondholders, they're included, and I discussed it further with the Governor at that point and that's the recollection of the conversation I've just given to you. So it was included, on that basis.

**Chairman:** Was included. And just with time-wise, was the Minister ... was the Minister departed at that stage from the-----

**Mr. Brian Cowen:** No, he wasn't.

**Chairman:** He wasn't there.

**Mr. Brian Cowen:** I don't recall him being in the room when I discussed it with the Governor, in fairness to him.

**Chairman:** Okay. Just two other matters then and then, as I say, we'll move onto this afternoon. And, returning to matters discussed this morning, did you receive any proposal, written or otherwise, from either Mr. Alan Gray or Mr. Fintan Drury on behalf of any bank, with recommendations on how the funding crisis could be dealt with for any particular bank? And if you received, what action, if any, did you take on the basis of these recommendations?

**Mr. Brian Cowen:** I did not receive any such documentation.

**Chairman:** Thank you. And just one other matter along the same vein is, can you outline any representations received from any senior executive or board member or of any bank or through any intermediary on their behalf, prior to the decision taken to increase the level of deposits to the NTMA or the deposits the NTMA were holding with the Irish banks and, if received, what action, if any, did you take on foot of any such recommendations or representations?

**Mr. Brian Cowen:** No I didn't receive any representations. The ... when that issue came up back in January of '08, when I was Minister for Finance, I stated last week in my testimony regarding that time that that was an issue I recall, there was a discussion with the then Secretary General, David Doyle, about ... who spoke to me about it and he had been a member, he was a member of the NTMA board. The question of the NTMA seeking, you know, insisting you write to them to say, so they go and do what was being suggested was at their insistence, and I did that for a period, that covered a six-month period and it was renewed in July by my successor.

I think the background to that, just to clarify it, is you know there was a view that obviously the NTMA acts independently and if they want to put its money into the Central Bank rather than anywhere else that's a matter for them. In their view I think at the time they weren't putting any money into any banks anywhere. So I suppose it was felt that with the tightening liquidity situation back in December ... December '07, January '08. You know if banks, Irish banks were out there looking for funds from internationally, it would be important to be able to say that their own NTMA, their own treasury was putting some money into their accounts, into their banks as well. Otherwise if they weren't able to say that was it going to make it less likely that they'll get funds out, would they be on the road getting funds for that purpose? So I think it was in that context that the letter was issued.

Secondly, of course the NPRF at this stage I was also writing to the NTMA asking them to get involved in you know, be available for contingency planning for this liquidity issue that was continuing. And we were sort of ensuring by putting ... getting the NPRF possibly involved at some stage in the future was something that was being mooted. It was a case that we would ever have to give direct liquidity support from within our own funds ... as a country, so they were involved in a way that in that sense as well. So that's basically the background to all that.

**Chairman:** Okay, so we'll move onto this afternoon. So maybe as we move towards the ... from the banking guarantee to the bailout, Mr. Cowen, could I put the question to you, did the structure or design of the banking guarantee, along with its period of duration, which we discussed this morning of two years, have any bearing on the Irish State entering a bailout programme two years and two months after the guarantee was put in place?

**Mr. Brian Cowen:** Well I think what pushed us having to go into a guarantee, or to look at a guarantee ... not look at a guarantee, look at a programme with the EU and IMF, relates to what was happening in Greece. On the bond market we were doing reasonably okay, in March and April if you look at the cost of funds for Irish Government it wasn't ... it was well affordable, it was in the fours anyway, 4 per cents. You then had the Greek situation developed where they had to go into a programme. And that sort of created ... this distinction started to be made in the markets to a greater degree than had been the case before within the euro area where different risk premia were being applied to different countries. In other words, the parameters, the range in which bonds were issuing were starting to widen. And the peripheral countries were affected by that, including Ireland. So by the time September comes and October, we're sort of we step out temporarily out of the market when we went to 8.6% in the bond market and we tactically stepped out on the advice of the NTMA. And then you have what happened subsequently as I outlined on my statement. So did it have an effect? I suppose it had some effect because when you've got to the end of the guarantee period you had the ECB obviously were starting to talk about the level of ELA, or the level of liquidity assistance that they were giving to the Irish banking system. And we were also in the process, of course, of trying ... of preparing plans before a budget to instill confidence in the international markets that we were committed, as a Government, to moving to a reduction of our deficit over a three or four-year period. So it had some effect, I'm sure, when it got to the end of that two-year period; it must have had some effect, people assessed the situation then-----

**Chairman:** Just two other matters then, on a related theme, relating to Mr. Lenihan's and Mr. Trichet's correspondence and to ask you were the Irish banks covered by the guarantee still solvent and, therefore, qualifying for ECB ELA funding at the time of Mr. Lenihan's last letter to Mr. Trichet, that was the letter of 21 November 2010?

**Mr. Brian Cowen:** Your question again Chairman is?

**Chairman:** Were the Irish banks that were covered by the guarantee still solvent and, therefore, qualifying for ELA funding at the time of Minister Lenihan's last letter to Mr. Trichet of 21 November 2010?

**Mr. Brian Cowen:** My understanding is yes. I mean, I think that the issue was the funding was continuing through the Eurosystem. Clearly, there was an issue of restructuring that would have to come up and, if you like, they saw the need to bring back to some, sort of, decision process to see what would happen so that when we did go into the programme, there was, as you know, a restructuring that took place and the €10 billion amount of the facility that was made available at the time was provided for that to start. And we brought in legislation in December of 2010 to enable that to happen.

**Chairman:** In Mr. Cardiff's testimony and his witness statement before the committee here, he commented upon Jean-Claude Trichet's letter of 19 November - this is the letter that preceded Minister Lenihan's letter - and in his testimony he says, "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." And he went on to explain that there was discussions already



in that regard. And speaking on the same related matter when this committee met with Mr. Jean-Claude Trichet when he appeared before the IIEA hosted event at Kilmainham in 30 April this year, he goes on to say, “As you know, we could also have continued on our side after having gone up to 100% of GDP to go to 200% of GDP, and why not 300% of GDP? That would” ... Or, he then says “Then what would a Commission of Inquiry be asking for?” referring to this inquiry. You would say, “Were you totally crazy at the ECB to continue when you were going into the wall at 100 mph to continue to provide liquidity and liquidity and liquidity?” So Mr. Cowen, could I put the question to you: was Mr. Trichet right? If this action hadn’t happened and the entry into the programme had been delayed for a further period, would the cost of the bailout actually have been bigger to Ireland, and if you could answer that, please?

**Mr. Brian Cowen:** Well, in relation to the letter, when it came on 19 November, first, I mean, it did come as a surprise to us because, I mean, Brian Lenihan had a very good relationship with Commissioner Rehn. And we had been, you know, in the normal way, in discussions with them since September in the Commission and they were obviously, you know, you had this annual budgetary interaction between the Commission and the member state of a euro country. And we were outlining to them what our thinking was, the need to provide a four-year plan, to provide a clear statement to the market as to what Ireland’s intentions were over the medium term, that we were intent on getting our deficit, which we had brought under control in 2010 ... we had seen growth for the first time in GNP since the crisis began, we saw year-on-year improvements in our exports for the first time *vis-à-vis* the more competitive position that we had established because of the reduction in our unit labour cost *vis-à-vis* competitors. So there were things starting to show that was ... and, of course, our balance of payments was coming back into surplus, which was indicating that we were earning our living in the world, if you like, by reason of a positive balance of payments outcome.

So, we were indicating that we were committed to this process and we had shown from 2008, you know, without any prodding from Europe we were adopting a very responsible position in terms of getting our budget back under control over a period of time because the gap that had opened up was quite substantial. So there was no question of, sort of, having to contact a recalcitrant government about meeting its responsibilities in terms of euro area Stability and Growth Pact criteria. We were conscious that we were well over it, we needed to reduce and we were going to reduce, and we were doing that. So the question is, when you ask me ... when it’s said that it was superfluous, in that sense we felt we couldn’t understand why it was necessary for to put that in writing since we were already in conversation with the Commission. They had a fair idea where we were going but the ECB obviously had come to a view on the liquidity assistance at a meeting earlier that week. I think by the time we got it, you know, we were in the process of moving towards a decision on whether we go into a programme or not, because we were getting certain assurances from that process of engagement that we talked about earlier when we sent over some officials to have these talks about talks what had they in mind. We wanted to make sure that you didn’t end up in a situation where you were accused of being in the programme, not knowing what the terms were and then people laying out terms to you, and that wasn’t going to work politically. Finally-----

**Chairman:** But in regards to-----

**Mr. Brian Cowen:** -----I’m not stopping you, in relation to Trichet ... Mr. Trichet’s statement, yes it is true, I mean obviously I’m not questioning the fact - it’s been made by officials here - that the ECB were very helpful in making sure that that liquidity assistance was available to fund the banking system. So no-one is being churlish in that respect. But what I am simply

saying is that we as a Government were moving to a position of making decisions that were of importance and the idea that we would have to be .... get a letter to remind us or to say to us, you know, focus in on this issue - we were very focused on the issue. We just wanted to make sure that the institutional people we were dealing with were going to ... we were going to end up with a programme that we believed was consonant with what we thought was possible and doable, consistent with maintaining to the greatest extent possible, employment in the economy. And to come back to your point, that's what his discussions with Olli Rehn were about in September.

**Chairman:** Okay, I just have one more final question then. Because the entry into the bailout programme had to be cognisant of two issues; one was the crisis that was still in the banks and capitalisation and all the measures that were legacy issues of the guarantee, there was also a structural deficit. What was the sum that had to be corrected in the structural deficit that the programme of assistance was to provide?

**Mr. Brian Cowen:** Well, we had indicated ... we'd already taken out I think it was about €11.6 billion in the funding gap and we were then saying there was another €15 billion over the next four years which would involve, in the first year, a 40% adjustment of €6 billion ... €6 billion for 2011. So we would, if you like, have ... I think ... sorry I'm getting my figures wrong, I think between ... my apologies, between 2011 and what we'd done since 2008, the correction was about €20 billion of the €30 billion journey that had to be travelled to get us back into a position of balance as far as the Stability and Growth Pact was concerned.

**Chairman:** So in addition to a banking debt there was a €30 billion approximate figure of a structural deficit as well that had to be dealt with?

**Mr. Brian Cowen:** That we were dealing with and that was now down to €15 billion before the 2011 budget and we left office with a €9 billion gap to be filled.

**Chairman:** Deputy Murphy.

**Deputy Eoghan Murphy:** Thank you Chairman, thank you Mr. Cowen again. I just want to clarify a couple of pieces of evidence that we got in previous sessions. In the run up to the bailout negotiations were you aware that Governor Honohan suggested to Minister Lenihan in April 2010 that Ireland would be next for a bailout after Greece?

**Mr. Brian Cowen:** Well I read that, I wasn't ... I'm not so sure that Brian told me that directly. But I think he was of the opinion that Portugal would be in that position before we'd be in it. My recollect of some of the transcripts ... so I'm trying to figure out what I'm reading from this operation and what I can recall at the time.

**Deputy Eoghan Murphy:** So you don't recall Mr. Lenihan passing that information on to you?

**Mr. Brian Cowen:** No I'm sure that was a conversation he had with the Governor where they were speculating on where Ireland might be. But obviously at weekly Cabinet meetings, substantive discussions take place if there's an issue to be discussed rather than depending on a discussion that might take place outside the Cabinet.

**Deputy Eoghan Murphy:** Okay. And were you aware that a precautionary programme from the IMF was suggested to the Governor in May 2010 and that he then put this forward to the Department of Finance?

**Mr. Brian Cowen:** Yes, well I was aware that obviously the Governor was passing on to the Department of Finance what thinking he was picking up over in the European institutions if you like, part of what we'd be picking up ourselves.

**Deputy Eoghan Murphy:** But this is separate. This is the IMF ahead of a ... they were coming over to do a country report and they suggested to the Governor that we might wish to seek a precautionary programme, one of their new precautionary programmes from them in May 2010. Do you recall that specifically being passed on to you at the time?

**Mr. Brian Cowen:** Again, you're asking me to specifically recall that ... it would probably be in documentation that came to Cabinet at some stage. But the point I'm making to you is that, regardless of what the IMF were saying, you know, we were coming to a position in relation to our own situation to say that we would prepare a four-year plan anyway, regardless if there was never a European dimension to it.

**Deputy Eoghan Murphy:** At what point, then, did the possibility or the likelihood of a bailout come into your view?

**Mr. Brian Cowen:** We knew ... we knew that when we were in discussions with them in September. First of all, there was this question of ... they would be interested in the fiscal side of the equation, first of all. And in this sort of budgetary engagement that takes place between the European Commissioner concerned, Mr. Rehn, and the Finance Minister of Ireland, Brian Lenihan, there were also some ECB people who were in on those discussions. Mr. Stark would be one of them. And they would always be more ... they would be saying "Cut this deficit by €8 billion", and we'd say, "No, we don't think that's doable and we don't think that's right. We think, you know, we have other things in mind." So you'd start discussing that and eventually it ended up with ... it wasn't quite €6 billion, it was some ... there was some one-off savings that we made that was included in that €6 billion, it might've been maybe €5.3 billion plus €700 million of a one-off benefit.

**Deputy Eoghan Murphy:** Just to be clear, these discussions were with a view to having to avoid a bailout? That you could achieve these fiscal corrections-----

**Mr. Brian Cowen:** These discussions were about us, what we were going to be doing. Obviously, you'd use your relationships with the European Union to make sure that you were ... that if we were coming forward with a plan, that they would have an understanding of what was doable and how the Irish Government saw you closing this gap over a period, rather than some desktop operation over in the ECB or the European Commission coming in and telling us "You have to do X, Y and Z." We were saying, you know, "We have to do this. We're committed to doing it and we are giving you an assessment of what we think is the best way of doing it, given the amount ... given the journey we have to travel."

**Deputy Eoghan Murphy:** I might come back to that but I just want to briefly address the issue of burden-sharing with bondholders, before the bailout, though, and before the end of the guarantee. So as the guarantee comes to an end in September, close to €19 billion of unsecured senior bonds come out of the guarantee - €4 billion to €5 billion were bonds issued to Anglo and INBS. And between September and the bailout agreement, €2.4 billion of unguaranteed, unsecured senior bonds were repaid. So, approaching this position at the end of the guarantee, did the Government have any plans for burden-sharing?

**Mr. Brian Cowen:** Once you're still in the markets ... the thing that changed was ... if

you're still in the markets, as we were up to then, and you're out there borrowing money, as I say, from a limited pool of investors, the question of being allowed to, as they call it, burn senior bondholders was not something that the NTMA would be in favour of in terms of being out there getting funds at the right price. You'd also the situation where the ECB, the monetary authority they were not in favour of burning bondholders-----

**Deputy Eoghan Murphy:** Did they make this expressly known to you before the end of the guarantee?

**Mr. Brian Cowen:** No, I don't think they ... I wouldn't say it was expressly ... made expressly known but it was clear what their policy was. I mean, there hadn't been a bondholder burned since Lehman's. Even the United States, who have a much more aggressive resolution programme for wind-ups of banks or closing down banks or winding them up, they hadn't burned a bondholder, I think, since Lehman's either. And the reason was that ... the effect this could have on market sentiment. So that's-----

**Deputy Eoghan Murphy:** Why do you think the Central Bank was looking at the possibility of burden-sharing with senior bondholders, and even large depositors, in August-September 2010?

**Mr. Brian Cowen:** Well, I mean, the Central Bank were looking at these ... we were looking to see would it be possible to do it. I mean, you wouldn't say you're not ... it doesn't mean you're not going to try it if you think it's the right thing to do and if it's ... if everyone's on the same page. So, I mean, it's back to this contingency planning again. But the issue was, as far as I could see, that for so long as we were out there looking for financing on open markets, the question of burning bondholders from the position we were in was a very difficult proposition. Once we came out of the markets, once we were talking about going into a programme, where we had three-year money in prospect and a sort of a fiscal framework where you could plan your way through the next three years, I wasn't that worried about, you know, the bond market because we wouldn't be in the bond market for three years anyway if that was the case.

**Deputy Eoghan Murphy:** Was any part of the State apparatus recommending burden-sharing to you at that point?

**Mr. Brian Cowen:** Well, I know the Central Bank, as you were saying, were looking at it but the NTMA at no ... at that point when we were out in the markets, my belief and understanding is the NTMA would not have been in favour of that.

**Deputy Eoghan Murphy:** And the Minister for Finance?

**Mr. Brian Cowen:** Well, the Minister for Finance would, obviously, work on the advice he had and he had to make sure that he could get ... we knew we had big deficits to fund. It's important that we got the money to fund those deficits, plan our way through the next three or four years and, obviously, he would be very much influenced by that and the NTMA would have a fair say on that but as I say, the situation changed once we got an alternative access to funds over a relatively long period of three years when we didn't have to be going to the bond market looking for money.

**Deputy Eoghan Murphy:** Kevin Cardiff told us that the NTMA were in favour of burning bondholders if it could be forced on us by Europe, if Europe said we must burn bondholders. So were we in favour of the Deauville declaration?

**Mr. Brian Cowen:** Well, the Deauville declaration, I don't think did us much good because-----

**Deputy Eoghan Murphy:** Are you talking about the after effects or before it?

**Mr. Brian Cowen:** I'm in favour of it if you thought you could get something out of it now but the problem was, once it was clarified within a couple of hours, that relates to 2013 debt ... new debt from then on. So that wasn't ... you know ... that wasn't helpful to us in the immediate situation we found ourselves in.

**Deputy Eoghan Murphy:** But were we part of the thinking that led to that declaration to be-----

**Mr. Brian Cowen:** No, that declaration was very much a Franco-German initiative. It's becoming increasingly part of the process before Council meetings where the French President and the German Chancellor meet and have some things to say which, I think, is really about trying to reposition the Franco-German entente or alliance at the centre of European decision-making and, sort of, suggesting that, "This is our position as we go into this meeting, whatever about the rest of you." I think, you know, the community method remains the best method for European decision-making as far as I'm concerned because it puts the Commission in the central role it should be, of policy initiator, and ensuring equal treatment for all states, including small states and large states.

**Deputy Eoghan Murphy:** Governor Honohan said that after the Deauville declaration the die was cast and we were heading for a bailout and that was clear.

**Mr. Brian Cowen:** Who said this?

**Deputy Eoghan Murphy:** Governor Honohan. Was that clear to you at that time, that we were heading for a bailout?

**Mr. Brian Cowen:** Well, our official position still at that time was that we were prepared to look at various processes, including a probationary programme, including a parallel programme that we could take up if we needed to. Remember, we were sufficiently funded until May or June of the following year. Now, I'm not suggesting that you would wait until May or June of the following year to decide what your next funding mechanism was but, you know, it was a matter for us as democratic ... as the democratic Government to make those ... to make that positioning and to do whatever leveraging we could do on our position in our interaction with the institutions. Now clearly the ECB, in the personage of the governing council of the ECB, I'm sure had a view on that from a monetary point of view but, you know, we had a lot of considerations to consider in that.

**Deputy Eoghan Murphy:** From the evidence we got from Mr. Cardiff, we see a number of interactions between Minister Lenihan and different officials from the ECB, the Commission and the IMF. Do you feel that Brian Lenihan kept you informed of developments at all times?

**Mr. Brian Cowen:** Yes, I think Brian ... Brian obviously had a ... he'd a very tough job and he did it very, very well and he was a very capable Minister. And I was very happy to appoint him Minister for Finance and I'm glad I did. He ... you know, there was a lot of balls in the air and he was trying to keep them all but, certainly, as far I'm concerned and as far as the Cabinet were concerned, he would keep us informed generally.

**Deputy Eoghan Murphy:** Did you or ... do you feel that you misled the public either intentionally or through omission as to the need for a bailout at any time prior to 21 November when the Cabinet made the decision to apply for one?

**Mr. Brian Cowen:** No, there was no intention to mislead but I do believe but I do accept that it was a miscalculation, a political miscalculation on my part and our part once the IMF component of the EU delegation was coming to Dublin. This idea the IMF were in town immediately created this view that it's a *fait accompli*. What we were doing was, at the time, and that was the situation right up to the meeting, I think, of the 16th, on the Tuesday when Brian was ... Brian Lenihan was there as Finance Minister for the country at an ECOFIN or a Eurogroup meeting was ... he was coming under pressure all right. People ... there were colleagues were saying to him, you know, "You need to go into a bailout programme." Brian was simply saying, "Well I haven't a mandate to do that, that would have to be a Cabinet decision. We're making progress, we're discussing what it might look like were we to do it and we have legitimate concerns that we want cleared up, including on corporation tax." And we were ... he said to them, in an effort to be co-operative, in an effort to be helpful to show our bona fides, he was saying, "Well, the next meeting we can have it in Dublin. The next meeting with officials we'll have it in Dublin. You come over to us." And that, sort of, then very quickly became a *fait accompli* as far as some people were concerned.

**Deputy Eoghan Murphy:** What exactly was the miscalculation? Sorry, just to clarify, the miscalculation was agreeing to have the talks in Dublin or not telling the public?

**Mr. Brian Cowen:** The impact ... the impact of having an ... IMF personnel coming over. If the EU were just coming over and we were having continuing consultations, I don't think it would have the same impact if you hadn't an IMF person with them. Now, they were coming over and there was no intention ... what we were trying to do basically, is to ... and I know it's done in a way that ... it's not meant in any way to mislead because there's no benefit in a Government misleading its own people. We weren't doing that. I was in a Cabinet that did a devaluation once and we knew about it the minute it was done. Sometimes you have to do things that way to for the purpose of confidentiality and for the purposes of maximising whatever leverage you have. But the point is, in relation to this particular matter, we were simply trying to get as full a picture as we could before formally applying for a bailout as to what it would look like. And if we ... because I can understand ... you see, the political miscalculation is, you know, the negative of people saying, "Oh you're entering a programme." But the positive was we were going to get money for a three-year period without wondering what the fluctuations in the market ... the markets were going to be. You were going to have money at a certain rate for that period to do a job which you'd set out in the four- year programme, which is going to be very difficult to do anyway but which had to be done. So, the point I am making is that we were, as I say ... Brian was saying, "I don't have a mandate to say ...", it's not for Brian Lenihan or Brian Cowen on his own to say, "We're going into a programme", it's a question of the Cabinet making that decision. And we were coming to the point where we were getting the necessary clarity about where they were going and what they were looking for from us that we felt was in line with what we wanted to do anyway. And the final point I'd make - I'm not stopping you - is that when we did go into the programme, it was on the basis of a prior Cabinet decision that we were adopting our own programme. In other words, they weren't going to be imposing it on us, we had a central plank prepared and ready to do-----

**Deputy Eoghan Murphy:** Just going back a moment, on 13 November you had a meeting with Brian Lenihan and his officials. And, from that meeting, you say in your opening state-

ment, in paragraph 203, “We had made no commitment at that point to formally apply for assistance until we were satisfied what the authorities had in mind and the conditionality attached to it.” And “if discussions were to take place it would be “talks about talks”.” Is there a reason why the two of you didn’t inform your Cabinet of this at the time?

**Mr. Brian Cowen:** No, because we were still at talks about talks. This was on a Sunday morning in ... Sycamore Room, I recall, and there was myself and himself and a couple of officials from the Department of Finance and my own Department and we were ... he was saying to me that he was having to go out to an ECOFIN meeting on the Tuesday. You’d usually go out to the Eurogroup on the Monday evening and you’d have the Eurogroup ... or, sorry, the ECOFIN meeting on the Tuesday morning. And he wanted some ... he wanted a line ... some line of instruction as to how we were going to handle the situation as it was developing and I said to him ... he said, “Our people are going out to have a chat with him because we have to go up and talk to them. They want to talk to us and we’ll go out and talk to them.” And I said, “Okay, that’s fine, but let’s keep it at a ... we’re not committing ... we’re not pre-committing to this until we know where it’s going.”

**Deputy Eoghan Murphy:** I’m just wondering, what did the Cabinet know prior to the meeting of 16 November where they were brought up to speed? Because Kevin Cardiff talked about the guarantee being plan B from September. So, what did the Cabinet know before that point?

**Mr. Brian Cowen:** No, well, I mean, what was involved there was ... when ... on Monday, there was an unfortunate incident where Dermot Ahern and Noel Dempsey were out at the opening of a road in Meath or Louth or up around there - Slane or something - and they had asked for what’s the story and there was some story in the newspaper about it. And they were told, “No, there was no talks going on”, and they went out and just gave that simplistic position instead of just saying ... what I would have said is ... not saying what ... I wouldn’t criticise them in any way, they simply said what they were told by someone in the Department or whatever. They didn’t get the nuance of the situation at all. I’d have said, “These are matters ... we’re here opening a road, these are matters for the Minister for Finance. You’d better talk to him about it.” But the point would be that they were ... it was seen as if, you know, they were giving misinformation, which they weren’t. Not as they understood it. They weren’t giving misinformation. Technically we weren’t in negotiations with anybody. There were discussions going on, we had not agreed to go into a programme, we had not applied for a programme, but we were in discussions about the possibility. But until we knew where that was going we weren’t even acknowledging that, not because you’re trying to mislead anyone, but you don’t want the European people you’re talking to to think that this is all ... that you can say what you like to us and we’re going to go in anyway.

**Deputy Eoghan Murphy:** Is it fair to say that you and the Minister for Finance had brought the State in a certain direction, almost to a decision, without keeping the Cabinet fully informed?

**Mr. Brian Cowen:** No, I don’t accept that. As I’ve said to you, I was in a devaluation ... I was in the Cabinet one time when they did the devaluation. I wasn’t Minister for Finance thankfully, although it was successfully done, but the then Taoiseach, Albert Reynolds, and Bertie Ahern, I’d say, were the only two who knew around the Cabinet table when that decision was going to be taken, and made it. And there are good reasons why that was done in that way. The Cabinet were there when it was made but it was being made, it was sort of ready to go at that point. Now, that wasn’t the same situation here. I’m not suggesting you’ll have that level of secrecy in this situation but there was a miscommunication, there was a miscommunication

that happened, and as Head of the Government I should take responsibility for that.

**Deputy Eoghan Murphy:** Okay. Again, you said you “made no commitment at that point to formally apply for assistance until we were satisfied what the authorities had in mind and the conditionality attached”. But whether or not burden sharing would be a part of that agreement wasn’t one of those conditions that you decided to clarify before entering negotiations; is that correct?

**Mr. Brian Cowen:** At that point, no. The burden sharing issue was not a definite part of it. It was going to be ... it was going to come up in the discussions in relation to the banking situation. But we’re here talking about ... the economic programme we’re talking about as well.

**Deputy Eoghan Murphy:** But on the meeting of the Cabinet on 21 November at which the decision was made to then formally request assistance, can you outline the discussions that took place at that Cabinet meeting, whether alternative options were considered or any advices received for or against the decision?

**Mr. Brian Cowen:** Well, again you’ll know that, you know, the question of Cabinet deliberations are constitutionally not available-----

**Deputy Eoghan Murphy:** I asked a specific question?

**Mr. Brian Cowen:** I know that, but I am going to answer you, but I’m just-----

**Deputy Eoghan Murphy:** Okay, okay.

**Mr. Brian Cowen:** I’m not trying to be pedantic about it, just-----

**Deputy Eoghan Murphy:** No, I understand.

**Mr. Brian Cowen:** Sorry, we’re talking about what date?

**Deputy Eoghan Murphy:** It’s a Cabinet meeting on 21 November when the decision was made to begin the negotiations.

**Mr. Brian Cowen:** Yes. Well, basically on 21 November we were outlining where things were at. The Minister outlined where things were at at that point. He informed his colleagues that preliminary discussions have taken place with the IMF, the EU Commission and the ECB. He also spoke about the serious liquidity problems currently being experienced by the Irish banks again, the difficult budgetary situation, the high cost of Government bonds, meaning to say that we had tactically stepped out of the market for the moment, and the dangers to international stability as perceived by our partners in the European Union. And he went on to talk about those issues and he made the point that discussions at the European level were such that he felt we could and should apply for a programme on the basis that the conditionality he had gleaned from them would be consistent with where we were going ourselves as a Government.

**Deputy Eoghan Murphy:** Was the decision to enter negotiations by the Cabinet then made on the expectation that there would be burden sharing?

**Mr. Brian Cowen:** It was ... the situation there was that we made a decision at that Cabinet meeting, yes, to apply, make the application formally. Sorry, one second. It would involve, obviously, the question of bank sharing or, sorry, not bank sharing, bank restructuring. To return the banking system to long-term sustainability and viability in relation to their funding capac-



ity, in other words to start reducing the balance sheets. It involved restructuring of Anglo Irish Bank and INBS and there was legislation would be involved in that as well, including a bank resolution regime to enable the restructuring of distressed institutions. The actual question of, of burden-sharing is not ... I don't see as part of the decision here, at this point.

**Deputy Eoghan Murphy:** Do you recall it being discussed or that expectation being amongst your colleagues at Cabinet?

**Mr. Brian Cowen:** The question was starting to be thought about, about shifting our position, if you like, on the basis that if we get ... if we get a satisfactory programme, and we're not dependent on the bond markets, can we get that burden-sharing as part of a solution to the ultimate cost of what we're trying to do?

**Deputy Eoghan Murphy:** So, it was discussed, thank you.

**Mr. Brian Cowen:** It was mentioned.

**Deputy Eoghan Murphy:** It was then coming to the end point of negotiations. Why was Governor Honohan not present for the final meeting on 26 November, which has been described as "the showdown", where the troika staff told Brian, in categorical terms, that burning the bondholders would mean no programme and, accordingly, could not be countenanced?

**Mr. Brian Cowen:** I don't know that offhand, you'll have to ask Mr. Honohan himself.

**Deputy Eoghan Murphy:** Were you present?

**Mr. Brian Cowen:** No.

**Deputy Eoghan Murphy:** Why were you not present?

**Mr. Brian Cowen:** Well, because I felt that the Minister for Finance should deal with that. He was the man that was dealing with them. He was reporting back to Cabinet, obviously, but he wanted to deal with that matter as ... he had his Finance people with him, it was being held in Finance, and it had been dealt with in Finance.

**Deputy Eoghan Murphy:** It was referred in evidence that the amount that could have been burden-shared was €18 billion to €19 billion of senior bonds, unsecured, unguaranteed, and that was the IMF proposal, and Kevin Cardiff confirmed this. So, do you not think that you should have been in that meeting, that showdown, where the issue of burden-sharing was finally resolved, given its importance to the State?

**Mr. Brian Cowen:** Yes, well, it wasn't a question of a showdown; it was a question of them confirming to us what we had gleaned from our own intelligence, which was that you couldn't get the EU and the ECB onboard with a suggestion from an IMF official at the level that we were ... that was dealing with at the local level. He had gone to the IMF and they had rung their G7 or their ... their top contributors, and under no circumstances, as far as the US Treasury Secretary was concerned, would there be ... would there be burning of bondholders. Now, I don't have the influence to overturn a G7-type body. We just weren't gonna get it.

**Deputy Eoghan Murphy:** Should we have been in on that phone call with the G7 that decided, ultimately, the fate of the bailout conditionality?

**Mr. Brian Cowen:** The IMF were checking with their main contributors. We're not a main

contributor.

**Deputy Eoghan Murphy:** Okay.

**Mr. Brian Cowen:** And the IMF were checking with the people who fund them as to whether they were in favour of this or not. And it was very clear, as I said, from the US point of view, from Mr. Geithner's point of view, since they hadn't burnt a bondholder from ... since Lehman's themselves, they were also concerned and ... and the ECB, I think, were concerned too about what would happen if there was, from a European perspective, if there was burning of bondholders. What impact would that have on other countries who were lining up to be possibly programme entrants? What impact would that have on access to the bond market? And, therefore, they steered well away from it.

**Deputy Eoghan Murphy:** Governor Honohan said, when he was before us, "We never committed to not burning the bondholders; we committed to not including the burning of bondholders in the programme, but we never signed any document that said we will never burn bondholders." So how is it understood, on what authority and on what basis was the bailout conditional on the burning of bondholders, senior, unguaranteed and unsecured bondholders, and was it your intention to burn these bondholders at a future date?

**Mr. Brian Cowen:** Well, as I say, in relation to this, I mean, at the end of the day, the Government had to make a political calculation. And the political calculation had to be, do we go into this programme and have access to three-year money at this rate, with the prospect of it being reduced over time, or do we have no access to money, being out of the markets at the moment, and take a chance? And it's back to, you know, my way of thinking is you don't take chances like that. You can't take chances like that.

**Deputy Eoghan Murphy:** Why would Governor Honohan say that though? That when you're-----

**Mr. Brian Cowen:** Well, Governor Honohan can say, you know, Governor Honohan can say whatever he wants to say. I can't ... I'm not here to answer for his own opinion; he's given his own view.

**Chairman:** And that's fair enough.

**Deputy Eoghan Murphy:** It appeared he seemed to be giving the view of what the State was thinking of at the time. "We never committed to not burning the bondholders, we committed to not including the burning of bondholders in the programme, but we never signed any document that said we will never burn bondholders." He's not talking in the first person, you know.

**Mr. Brian Cowen:** Okay, okay. Fine, fine, if he wants to make that distinction, that's fine. But, the practical issue was that we were going into the programme on the basis that the IMF wouldn't agree to the burning of bondholders. That's the bottom line.

**Deputy Eoghan Murphy:** Okay. Then-----

**Chairman:** Finally.

**Deputy Eoghan Murphy:** Thank you, Chair. We come to the final decision of the Cabinet on 27 November.

And the question is really, that decision that was taken, given everything that was now known about the conditions of the bailout, what would not be happening regarding burden-sharing and the interest rate that was going to be applied, was the decision to accept the bailout as straightforward as the decision to approve the guarantee in terms of Cabinet support?

**Mr. Brian Cowen:** Well, I mean, the Cabinet adopted the programme or adopted-----

**Deputy Eoghan Murphy:** Was it straightforward-----

**Mr. Brian Cowen:** Straightforward in the sense that ... Nothing was straightforward, Deputy. I mean, these are big decisions; they are not straightforward. You know, the Minister for Finance puts out the position, he explains where it's at, he goes through the details of what's envisaged, what's involved. We got in writing, recommendations on this from the NTMA and the Central Bank that this was something we could run with if we had to. So the question of what we are trying to achieve here is to drop the balance sheet, you know, there's pros and cons in all of this. But there's no doubt, at the end of the day that you see regardless of ... leave out the European involvement for the moment, leave out all the other stuff ... Ireland as a country had to get to this position. We had an economic programme that we had agreed on that would get us to that position. That economic programme formed the central plank of this programme that gave us access to the money to implement it. So, in that sense, we were facing up to our responsibilities. Thankfully, there was a programme there which helped us get through this very difficult period. We had made the point and it was clear in the memo that whilst the IMF percentage interest is a calculation and the European one - we were the first entrants into the programme, it was the first new programme - they were, sort of, on the basis that, I think I've referred to it in my statement ... on the one hand, they wanted it to be affordable, on the other hand, they didn't want it to be so attractive that those who were getting into trouble wanted to come into it. So they were sending it out, it ended up basically about 5.8% composite interest rate but we had it in the ... it's in the memo and it's an understanding in the programme that we could continue to talk about that, we could continue to talk about this interest rate issue because we weren't exactly saying, you know, "That's great." So the point is that we continued to work on that and as early as November and December, discussions were ongoing about that interest rate.

**Deputy Eoghan Murphy:** People have reported that a member of the Cabinet saw it as the terms of humiliation----

**Chairman:** Deputy, you are way over time. You will have another time to come in.

**Mr. Brian Cowen:** I do not know who quoted that. It wasn't...

**Chairman:** Okay, we are not going there. Senator MacSharry.

**Senator Marc MacSharry:** Thank you very much. Thanks Mr. Cowen again. Just to begin with the call by Governor Honohan to go on the "Morning Ireland" programme. Mr. Cardiff, when we had him here giving evidence, had mentioned that he would have liked an hour's notice that it was going on. He also said that this put the Government very much on the back foot as far as the public relations were concerned, but also it provided some clarity to the situation. So just on those three issues, why or would you know did Mr. Cardiff have the view that an hour would be sufficient? Was it that a decision had to be taken within an hour or was it the case that a plan could be put into practice within an hour or would you have any view on that? Secondly, what comment would you have on Mr. Cardiff's view that this put the Government

in the back foot from a PR perspective and that, finally, it also gave clarity to the situation? So there are three parts to that question.

**Mr. Brian Cowen:** Thank you. Well, in relation to... I think, he may have been referring in the first part of your question to the fact that the Department of Finance, I suppose, are saying they'd like to have had, or he personally would liked to have had some prior notice that this was going to happen. I'd make the point that when Mr. Honohan did have his interview that he did say that this was a matter for the Government. And then, of course, as the interview developed ... well, quite quickly, as it developed, he went on to say that he believed the programme would ensure over these discussions and that it would be of the order of what it was. Obviously, that was a difficult situation for us politically because, suddenly, people like Michael Noonan or whoever come into the Dáil and say, "Patrick Honohan has told us what's going on. You haven't told us what's going on." And what we were doing at that point, of course, was coming to a conclusion with them over the next couple of days on preparing for the 21 November Cabinet meeting. So, it did put us on the back foot. As I say, it was very unfortunate that that's the way it came out, that's the way it was presented. That was a job for us to do and it put us in a poor light. And I'm not suggesting that the Governor set out to do that or anything like that. He answered the questions as they were put to him and the bottom line is we should have been able ... we should have been saying, "Look, we have these people coming over, we haven't applied yet. We are in discussions with them, we'll see where it takes us. We should come to a conclusion fairly soon on this, one way or the other." And that would have actually been the very accurate, up-to-date situation as it was.

The third question you asked me was what? Sorry, the third bit?

**Senator Marc MacSharry:** Did it provide clarity-----

**Mr. Brian Cowen:** Oh yes. Well, I mean-----

**Senator Marc MacSharry:** -----which was the view ... part of the view of Mr Cardiff?

**Mr. Brian Cowen:** Well, there was going to be clarity provided anyway as soon as we had ... as soon as we had ... we were looking for a bit of final clarity ourselves before committing to applying and then knowing that we were negotiating on the basis that it would get us an outcome that we could find that was doable, as difficult ... and it was going to be very difficult to do it, one way or the other. But clarity was ... it wasn't intent ... it wasn't our intention not to provide clarity, it was the timing of providing it, I suppose, that ... where we fell down.

**Senator Marc MacSharry:** You mentioned several times in your evidence about the ... the view that we were being bounced into a programme or that there was significant briefing going on from European sources to facilitate our entry into a programme. Do you feel that Governor Honohan was, either unwillingly or willingly, part of this strategy in terms of masters or senior colleagues at the European Council of the ECB, who presumably would have met the night before? Do you feel it's potential exists that Governor Honohan was told, or suggested in very strong terms, "You should get yourself on the national radio and get this out there because" ... you know?

**Mr. Brian Cowen:** I don't believe that the Governor at any time was part of this unnamed sources. I don't believe that for a moment. What happens in these situations is, you know, the European Central Bank, there are a lot of people on it and there are a lot of people have an awful lot of things to say about other countries and not a lot of things to say about their own.

And some people, as we know, can't pass a microphone when they're passing it, on the basis that they'll give you the full story once you don't mention their name. They're all very brave, sincere, honourable people, I'm sure, but they're not ... it's not a very ... a nice practice to be engaged in. It doesn't show any respect to the native governments, the member state governments. You know, we didn't any ... need any reminding from anybody about what our responsibilities were. We knew exactly what our responsibilities were. We were simply trying to create a bit of space for ourselves, as anyone would, to get as much clarity on what it is we were having to face into, rather than just simply saying, "We're going in" and then they can walk in and impose whatever conditionality they like on the basis that we've already publically declared we're going into a programme. You've got to use ... even if you know you're in a weak position, you've got to use as much leverage as you can or try and create a bit of leverage, so at least there's a mutual respect when you're sitting down and that you, as a Government, are acting in a ... in good faith, but obviously prudently and carefully before you decide ultimately on what is a major policy position. So, regarding then whether Professor Honohan was pushed, I mean, Professor Honohan went out, he was obviously ... maybe ... I don't know what the detail of who contacted who, in terms of how the interview was set up, but I'm sure RTE were interested in talking to him and being the-----

**Senator Marc MacSharry:** I think he gave evidence he called-----

**Mr. Brian Cowen:** -----being the accommodating person he is, he said, "Okay, that's no problem." But, I mean, he did make the point, and I just want to emphasise this, he did make the point in the interview that this is a matter for the Government and he went on to give an opinion. Now, obviously that can ... that can ... we'd be foolish not to think that, once you give that opinion, that that's not going to have a big impact, of course it will, but-----

**Senator Marc MacSharry:** What was the material impact on the situation? What ... was it a negative, was it a positive? I know it was, from a ... put you on the back foot, as you've said, but, you know, in real terms, was there a cost to this timing?

**Mr. Brian Cowen:** I don't believe so. In fairness, I think that it just ... it was unfortunate to the extent that had we been allowed to get to that weekend, with the discussions going on as they were ... because remember these consultations as they were being called, that's the wording that came out of the decision of the ECOFIN meeting on Tuesday. They were talking about the consultations will continue in Dublin. Now consultations are consultations, it's not a decision to apply to anything. But we were acting in good faith. Brian Lenihan was saying to colleagues, "Look we're ... there's some outstanding issues we'd like to just get clarified, we're moving a certain direction." You know, he was trying to be ... show that we weren't being recalcitrant, we were just trying to make sure that we got as good a deal as we thought we could get.

**Senator Marc MacSharry:** Just to finalise on the issue, you said earlier that yourself and Minister Lenihan were liaising talks about talks, rather than committing until you knew what the consequences were, how it was going to be handled and that you wouldn't commit to it until such time as those outstanding issues were ironed out. And while you were getting close to that, was the timing of this interview, this intervention through the national airwaves by the Governor of the Central Bank ... did it in any way weaken or have a tangible negative or positive impact on the remaining issues to be ironed out to your satisfaction before applying to a programme?

**Mr. Brian Cowen:** Well I'm satisfied that it didn't have a detrimental impact in that respect. It was a detrimental impact politically. It didn't have a detrimental impact in that.

**Senator Marc MacSharry:** Just going back to the bouncing into the bailout and the back briefings and all that, would you have an idea of the sources of these briefings that were going on?

**Mr. Brian Cowen:** No. I mean that's the whole idea, you can't source them.

**Senator Marc MacSharry:** Okay, yes. You certainly couldn't prove, one would imagine, but did you have a view that there was vested interests of particular nationalities or?

**Mr. Brian Cowen:** Well I don't know, I don't know. It's only speculation on my part. There's clearly ... there are ... there were people who liked to ... who felt ... who didn't like the pace at which we were addressing this issue, which was quite fast as far as I was concerned. You know, we had a Government to run, we had serious difficulties on our hands anyway. And the Minister was a person who was ... the Minister for Finance was highly regarded by his colleagues and rightly so. And he was giving an indication as to what we were ... you know ... generally, where the situation was heading for subject to him being satisfied on a number of points. And that should have been accepted. I don't see why we have to receive letters about it, I don't see why people have to source anonymously about Ireland being here ... in or out of a programme. We were doing our job engaging with the institutions and we should have been given a little bit of space and time and respect to come to a decision that we eventually came to.

**Senator Marc MacSharry:** Did you feel that these briefings, and give us your view at the time, what ... did they have a direct relationship to the rise in bond yields?

**Mr. Brian Cowen:** Well there's no question but that ... well there was a problem let's be straight about it. There was an issue in terms of outflows again and the banking system, we needed to get this sorted out. We had come through the NAMA process, we'd been very transparent. I mean let's be clear, we had gone through a process of valuation on loans and inspection of loans and collateral and security and everything else that I don't think that anyone else had done. So we had been very anxious to be up-front about what the level of losses were, how we calculated them, that we had a process in place through this asset management agency to take these assets out from the balance sheets. I mean in fairness, the best ... in fairness to the ECB, can I say this in another respect, that the benefit of the asset management agency model was that we were able to get, you know, provide bonds to be presented by those banks for those loans to get liquidity from the ECB as well. So I mean, you know, they were being helpful as well and we ... it would be churlish not to acknowledge that or to say that we were unappreciative of that. We were appreciative. But there were just a couple of things in relation to the programme situation that could have been handled a bit more diplomatically.

**Senator Marc MacSharry:** Just on the ... and I'll come back to it in a minute, but on the bond holders, were you aware of the profile of who they were?

**Mr. Brian Cowen:** Yes, I mean you'd have ... yes, you'd have a ... the Minister for Finance would have informed me up and down what the profile was.

**Senator Marc MacSharry:** So when you, for example, I mean, you mentioned other evidence - pension funds, credit unions and so on. Would we have known the nationality of banks, for example, of those who were among the €19 billion?

**Mr. Brian Cowen:** Yes, they would ... they would know. Yes, they would know.

**Senator Marc MacSharry:** And would there have been higher concentration in some

countries rather than others?

**Mr. Brian Cowen:** Yes.

**Senator Marc MacSharry:** And would they be IMF contributor countries, main contributor countries?

**Mr. Brian Cowen:** Some of them.

**Senator Marc MacSharry:** Okay. Are you allowed tell us?

**Mr. Brian Cowen:** I don't know, to be honest. Yes, I mean, obviously, there'd be US people and other people.

**Senator Marc MacSharry:** Okay. Just in terms of the putting together of a programme, in terms of Government officials attempting to secure support from other EU institutions and individual member states, what did you undertake in terms of trying to ... was there alliance building going on to say "Look, we want you to support us in this", or-----

**Mr. Brian Cowen:** Sorry, Deputy, could you repeat that question?

**Senator Marc MacSharry:** Was it just directly with ... was it just directly with Olli Rehn and his team and just directly with the institutions themselves or was there any attempt by you or Minister Lenihan or officials to kind of build alliances or canvass support-----

**Mr. Brian Cowen:** I understand. When it came to the ... when it came to the negotiation, you were dealing with the institutions, and the institutions were being ... both the Council, the Commission and the ECB were being represented in the troika situation and they had a mandate under those funds to complete a programme and we felt that once you had ... once we had applied for the programme it was important to get those negotiations dealt with quickly and efficiently and not create a lot of uncertainty about it. As I say, the work that had been ongoing beforehand, before we formally applied meant that we were able to do that, because a lot of interaction had taken place, if you like, on what ... because we had in our plan, you know, there were structural reforms as well as fiscal issues and expenditure issues. So we were in a position to produce all of that. And that was quickly assessed by the troika people when we handed it over after the Cabinet had approved it and they acknowledged its rigour and they acknowledged that it would fit the bill, it would meet the requirements, that it was substantive, it was good work. So the question then of looking for support beyond that, we had ... we had the agreement of the troika to what it is we were putting and they were going to come to us then on the banking side with their proposals on restructuring and all the rest of it and how that would be funded and those discussions were ongoing and then you had the whole ... the question of the IMF stuff then after that.

**Senator Marc MacSharry:** When ... you were saying from 2008 up to this time, you had begun a fiscal correction but in focusing on the €15 billion that you want to, in your own words, kind of put together in your own way, what you knew was doable, or what ye knew was doable before committing to a programme, was there a kind of contact, informal kind of, with the ECB and the IMF and the Commission, albeit home-grown, but what you had planned to put into the €15 billion adjustment?

**Mr. Brian Cowen:** On the fiscal side, there had been discussions in September and October.

**Senator Marc MacSharry:** Was that just with the Commission in the normal way or was

it with the other two?

**Mr. Brian Cowen:** It was with ... no, it was with ... it was with the Commission, but there had been ECB people in on those meetings as well-----

**Senator Marc MacSharry:** And would you, for-----

**Mr. Brian Cowen:** -----handling that.

**Senator Marc MacSharry:** Would it have been the case that you would say, you know, “Can we apply more tax to X or more tax to Y?”, and they’d approve or dissent on that or what way did that work?

**Mr. Brian Cowen:** Well, some of it would be about, first of all, getting them to understand, you know ... because the micro-detail of an economy is something you have to convey. I mean, these people would have a ... obviously, a very good desktop analysis of every member state country and would know a lot about it but we were sort of wanting to bring to their attention what our thinking was, what our commitment and determination to do this was, what we felt was how you’d look at this correction over a period of years and obviously you’d need to make a statement early on in the programme that show that you were committed to doing it and that you were going to get it done. So we were prepared to say that a 40% correction in the first year, which would involve not just expenditure cuts because people will recall tax rises as well. Now, one of the issues that had arisen was clearly that you had about ... I think, from memory, I think about 45% of people in work were not in the tax net. There was only about ... there was about 14% in the higher tax rate. So we had built, in the good times a very progressive income tax system where those at the highest were being asked to pay progressively more. I think the top 6% paid 60% of total take ... tax take on the income tax. And we did that because we were ... we had been very ... you know, driving employment as a key national priority over those years and ensuring that people on lower wages - in some cases less than the industrial wage would - would be encouraged, you know, that they ... they would have a good return on the money that they were earning and it wouldn’t be taken all back on tax. So, that was an issue that clearly had now to be fundamentally reassessed given where we were at in terms of the economic cycle and in terms of closing the gap ... that the Revenue would have to make a contribution. And Brian was of the view that, you know, everyone has to pay something and obviously the most ... the best or the highest paid pay the most. But everyone would have to ... we’d all have to be contributing at what ... at a time before when we were able to exempt people from that, that that was going to have to come back into play. So-----

**Senator Marc MacSharry:** Sorry, go on.

**Mr. Brian Cowen:** So the issue was ... that was on that side of the fence. On the other side of the fence, the expenditure side of the fence or, sorry, the adjustment side of the fence, we had to come to an agreement with them or an understanding, I suppose, that what we were doing would be deemed by everybody as being sufficient. And we ended up, as I say, with a figure close to €6 billion for the first year, which included some one-off non-recurring savings or revenue raising, if you like, that would get us to €6 billion but would, in an ... in an ongoing year round ... would probably be about €5.3 billion, €5.4 billion.

**Senator Marc MacSharry:** So, before you committed to a programme, before 21 November, and you had drawn up this kind of basis €15 billion or whatever, in terms of ... what was that made up of in terms of the specific measures? Was that independently drawn up or was it



... in any way or, indeed, was it heavily influenced by external participants, such as the advice from the ECB and the Commission?

**Mr. Brian Cowen:** It was drawn up ... it was drawn up within our own system. The €15 billion would be made up of €10 billion of expenditure savings and €5 billion tax changes ... tax revenue raising ... 2:1, in other words. And the reason why that was being done ... we saw it that way at the time because we were told that was the best way of trying to maintain the maximum employment as you were making this adjustment ... that you'd keep ... taxation would be a lesser component of the adjustment than ... than ... than spend, or less spend in this case. So it wasn't going to be easy but it would ... and then we outlined, you know, where the main drivers were ... the main drivers of expenditure were. It was in public pay and pensions, it was in----

**Senator Marc MacSharry:** What I'm trying to get to ... what I'm trying to get to at the end of the day here is was did we have plenipotentiary status in determining what measures we were going to introduce ourselves or was it prescribed for us by ... initially the ECB and the Commission and then later the IMF also when we committed to a programme?

**Mr. Brian Cowen:** We engaged with the European Commission, as all member states do, about budgetary strategy but we came up with a solution with which the Irish Government were prepared to put a plan in place. If there were people ... and there were some, early on in discussions, who were saying, "The adjustment should be €8 billion in the first year." We did not accept that, we didn't see that as being the right thing to do.

**Senator Marc MacSharry:** I get that ... and I don't want to be stopping you, I get that on the on the, you know ... I get the figures overall and €10 billion and €5 billion and you knew what was best in terms of year to year and I get that completely. But were you afraid to say, for example, "Okay, well we're going to have a prescription charge of €5 per item", or "We're going to introduce water charges", or "We're not ...", as the case may be. I mean, was that a matter for yourselves or was it being prescribed?

**Mr. Brian Cowen:** Well, in fairness, you know, let's be clear about it. They weren't into the micro detail and we had ... you obviously had to produce initiatives that showed that you were going to make these adjustments. But, at the end of the day ... as you go through year to year, at the end of the day they're just looking at the bottom line. You know what I mean? They're ... they're not going to ... they can't be that prescriptive. But, obviously, you have to put forward credible revenue-raising proposals and, at the end of the day then, how you implement them is a matter for Government - how you do that. And how you ... if you have, for example, a higher growth rate in your next year, your assumption was you would have 2.75% growth and you ended up with 3.5%, well then you can, obviously, during the course of your discussions during the following year, as I'm sure Minister Howlin has done and Minister Noonan does, you say to them "Look, we can reach this target but the Government feels we can adjust how that programme will operate this year accordingly, this way or that way or the other way."

**Senator Marc MacSharry:** So yes, you had control or you had partial control, or no you didn't?

**Mr. Brian Cowen:** When you have flexibility, yes, you have control and you have flexibility, but you must meet the targets.

**Senator Marc MacSharry:** I get that. Just to move on so, in terms of the National Treasury Management Agency, how did they react when you had suggested that ... or, the Depart-

ment had suggested that money would be invested or lodged in the Irish banks?

**Mr. Brian Cowen:** Well, I ... we sent a letter. I sent a letter to them as I was told that if we wanted that to happen we should just send an instruction to them because they have a statute which is about their independence and if a Minister involves himself in any of the things that they do you have to produce a letter for their file. I did that and they put it in. And the amounts they were putting in were very modest. Before that they weren't putting in anything and I think all it was about trying to make sure that you didn't have an Irish bank was out trying, looking for funds, having to say to someone "Well, your own National Treasury Management Agency doesn't lodge any money with your bank." I mean that wouldn't make sense. And certainly you wouldn't do anything that would put anything ... it wasn't at risk anyway.

**Senator Marc MacSharry:** Did you agree with their view at the time, that we shouldn't burn bondholders because it would upset the markets, when we were still in the markets?

**Mr. Brian Cowen:** Well you have to listen to ... you have to make what's in your interests. If you burn them on the one hand and you end up having to pay 7% and 8% for bonds over the following 15 or 20 years, you'll probably end up in a debit situation compared to what you've burnt. You know, you've got to figure out and be advised what ... where the balance of your interests lie. And as long as we were in the markets, there was a view that certainly we shouldn't do it. Not because you'd be ... you know, just being deferential to them, it's in your own interest not to do it because you want to make sure you have a group of people out there to fund your deficits as you try to get into a budgetary balance and move to growth. But the other point is that, you know, if it's in your interest to do it then there's nothing to stop you doing it but you better know what the consequences are and have them factored in.

**Senator Marc MacSharry:** When we were discussing things with Mr. Cardiff, we had asked him about this issue and he had suggested that at IMF local level there was a ... and you said it yourself, they were sympathetic to burning bondholders. And in questioning he said right up to what was described on the day as "Strauss-Kahn level" there was an expectation that this was going to be okay. Was that your understanding at a particular point in time?

**Mr. Brian Cowen:** That was the whole ... I mean, once we heard ... once we had made inquiries and we were told that that level of the IMF were sympathetic to that and they could see that as being possibly part of a programme, you know, we pursued it. And they then said "Well we'll get back to you we have to, obviously, go to higher authority and see if that's on or not."

**Senator Marc MacSharry:** Then we have the G8 and is it your contention that it's put to their ... you described it as the main contributors to the IMF, that it was put to them and ultimately that's where the veto arose, is that correct?

**Mr. Brian Cowen:** That's my understanding.

**Senator Marc MacSharry:** And back to the €19 billion and the profile of those holders, notwithstanding the pension funds and ... the pension funds and credit unions. Can you, to the extent possible or to the extent legal permit us, give us a percentage breakdown of what nationalities at what amounts relative to them, and then I've one question to finish after that, if that's okay?

**Mr. Brian Cowen:** Unfortunately I can't do that, I don't ... I mean, I remember seeing a list one time that Brian had shown it to me. I mean, I don't have that off the top of my head but just to say to you that it involved, you know, funds from Europe, from the States, from probably

Asia as well, I mean, I can't resolve that one. It's what you'd expect it to be in some respects. But the point I'm making is, you know, it wasn't a case of whoever's on the list determines what we're going to do, that wasn't the issue. The issue was, was it in our interest to do it in the absence of a programme, the funding of a programme?

**Senator Marc MacSharry:** But after ... I mean, when you had the programme, surely you were funded, so the same impact wasn't going to be there.

**Mr. Brian Cowen:** Well, I mean, there's things ... You have to act in good faith, Deputy. If you decide to take a programme and it is made clear to you that taking the programme involves not proceeding in that way, well then you've got to deal with that. The distinction being made by Deputy Murphy, which is a distinction that's being suggested by the Central Bank Governor, if that possibility in the EU is still there I'm sure this Government would be exploiting it to the full. It's not ... and in fact in fairness, you know, when the incoming, when the present Government came into office and had ideas on that front, you know, they went and discussed that in the corridors that ... the relevant corridors and they made the decision that it was, you know, a valid decision from their point of view, that it wouldn't be in our interest to proceed along those lines at this time.

**Chairman:** Your final question, Senator.

**Senator Marc MacSharry:** Finally, and thanks, you'll have seen the testimony I'm sure of Mr. Trichet at the event here in Dublin. Can you give us your view - because Professor Honohan has speculated in his evidence as to whether this view was a valid one or would bear out - that ELA would be withdrawn from the country ... following the letter saying ... threatening that it would, unless we entered a programme? In evidence here he said, "But would they?" What's your view on that?

**Mr. Brian Cowen:** Well I mean the fact of the matter is it was in our interests, let's be clear about it, it's in our interests to go into the programme at that point. And what the programme provides us with was a fiscal framework at an affordable price which was not available anywhere else to do what needed to get done as difficult as it was. So that was one aspect of it.

The other aspect that you're raising with me is, would the central bank have carried out their threat to withdraw liquidity? Well the central bank had made it very clear at their governing council meeting earlier that month that the present situation could not continue indefinitely. It doesn't mean ... what does that mean? It means that a resolution had to be found, a policy response had to be created that wouldn't be on the basis of *status quo* plus. And it was in our interests too by the way to find a way of restructuring our banking system, of finding a way of downsizing the balance sheets and getting confidence from the international community again that we had a sustainable banking system. And, you know, so I have to acknowledge all of those facts in terms of ... rather than saying pro-ECB, anti-ECB. I'm not getting into that I'm just saying these are the facts. And when you're in a position of responsibility and when you're in government you have to take all of these things into account. So Professor Honohan says, at the end of the day, doesn't mean that they were going to pull it immediately. I'd probably concur with that. But does that ... where does it get you if the situation is that the present policy isn't sustainable? It is not in our interests if it's not sustainable and it wasn't in their interests. So we had to find a solution to the problem.

**Senator Marc MacSharry:** Thank you.

**Chairman:** I now propose we will take a break until 5.15 p.m. Is that agreed? I would like to remind the witness that once he begins giving evidence he should not confer with any person other than his legal team in relation to evidence and matters being discussed before the committee. With that in mind I now suspend the meeting until 5.15 p.m. and remind the witness that he is still under oath until we resume. Is that agreed?

*Sitting suspended at 4.58 p.m. and resumed at 5.20 p.m.*

**Chairman:** I now propose that we go back into public session. Is that agreed? Agreed. Okay, we're now back in public session, and if I can call on Senator Michael D'Arcy please. Senator, you've ten minutes.

**Senator Michael D'Arcy:** Thanks, Chair, Mr. Cowen. Could I go to core documents DOT/BCO Vol. 5, page 6? Mr. Cowen, in terms of the analysis for NAMA, the expectation was, and Minister Lenihan on the floor of the Dáil said it would be something between a 25% and 30% write-down. When the analysis was concluded it was a lot more than 25% to 30%, it was almost ... I think it was 59% was the average. Did the establishment of NAMA lead, subsequent to the guarantee, lead the State with no option but to accept the bailout?

**Chairman:** There's phone interference carrying on as well close by to you.

**Mr. Brian Cowen:** Well, the NAMA decision was based on looking at all the options before that by ... by Peter Bacon and ... and we came up with this solution of NAMA. The question of the 30%, this was the problem that I might have mentioned before, earlier, and that was, you know, you had the duty of accountability to the ... to the House, when you're putting through the legislation, where people were asking what sort of haircuts are we talking about? And this was the first guesstimate, if you like, well it was a guesstimate, by definition. And the problem is, you know, on the one hand you're trying to give the House an idea as to what might be entailed here and the second thing then is if it doesn't work out right ... you're not accused of misrepresenting it or misleading ... but it creates another problem and it creates a ... an issue, externally more so than internally, where people are saying, "Well, do they know ... have they got their arms around this at all?" So to that extent, it wasn't helpful. If you were doing it again, you'd still have to go into the Dáil and ask people to take on legislation without you being able to give them the detail that they were looking for and of course, that's difficult as well. So you're damned if you do and you're damned if you don't. But the point is in any event that it wasn't a good way of building confidence in the process, when you ended up with a 57% average haircut, as distinct from a 30% prediction.

It does have the benefit though of being transparent. People always look for transparency. Transparent in the sense that, you know, you're ... you're putting your cards on the table as to what ... the number of loans you were talking about, what number of debtors you were talking about and what the haircut was gonna be, having done a very granular case-by-case examination of the loan books. The question you then ask is, did this ... was this a contribution to us having to go into the bailout? I think, unfortunately, that the bailout issue arose in terms of the banking situation was that the ECB was running out of patience in terms of the ... the liquidity provision being provided and the amount that was being provided. And they felt that we needed to come up with a solution that wasn't based on, as Mr. Trichet said, providing liquidity *ad infinitum*. So I don't think the NAMA process contributed to it but I think sometimes the predictions you were making about what the level of haircuts ... and not being able to stand over it when you got to the end of that process, did create a sort of a dissonance out in the international investment community as to whether we were on top of it or not.

**Senator Michael D’Arcy:** In terms of the ... the final deal, the final arrangement for the bailout, in evidence, Mr. Cardiff stated that the IMF and the officials from our Department of Finance didn’t believe it would be successful.

**Mr. Brian Cowen:** This is from where?

**Senator Michael D’Arcy:** The Department-----

**Mr. Brian Cowen:** -----of Finance?

**Senator Michael D’Arcy:** Yes, and the IMF ... didn’t believe that the bailout on offer would be successful. Why ... were you aware of that?

**Mr. Brian Cowen:** Well, I don’t see how people were saying they didn’t believe it would be successful. It was very challenging but it had to be done, it was gonna have to be done. And it’s like everything, if the political will is there to do it, it can be done.

**Senator Michael D’Arcy:** I suppose, what I ... what I’m touching upon, Mr. Cowen, is the rate. While the IMF rate was fixed, the Commission and the ECB moneys were not fixed. I understand the logic behind it not being too cheap where people would try and access it but the term was short and other conditions were difficult.

**Mr. Brian Cowen:** Well, I think ... that’s a fair point. I think that the issue there was that we were the first ... the EU were not expert or *au fait* with doing this process. It was the first time to be in this sort of a ... IMF were more ... regular people who did this sort of thing. But the issue was ... so, we were the first ... we were the first in line, if you like, for a programme. What was clear is that if you put in a programme that is sufficiently ambitious and rigorous and stands up to scrutiny, and if you start implementing that programme, you build goodwill with the programmers and you start saying to them ... you start getting the sort of flexibilities you are looking for. Plus in relation to the interest rate we were back in negotiation, not negotiation but back with them again in December after we had completed the negotiation and we had formally adapted the programme in the House. And in fairness to the present Government, over a couple of years when an opportunity arose in the IBRC situation to lengthen the years of the repayment period, the schedule, then obviously that was a commendable achievement as well.

So what I am saying is you have got to build your credibility with these institutions. The fact that we could do it quickly, the fact that we had a credible programme - it wasn’t easy and I am not suggesting that for a moment, it was going to be very difficult domestically to do it. But once you got into a position where you are able to deliver and of course the quarterly and monthly reviews that were going on, showing that this State had the capacity to deliver logistically on the sort of details that they wanted about the programme and how it was doing and all the rest of it, that all added to the goodwill for us to continue with getting improvements. As I’ve said I am not involved in public life now but I would acknowledge and commend the work that this Government has done to improve some of the terms.

**Senator Michael D’Arcy:** In terms of the role for public interest directors, why did you appoint public interest directors?

**Mr. Brian Cowen:** Well public interest directors were ... the idea there was that whilst we didn’t have ownership of these banks, we believed this was in the interest ... to try and help restore some public confidence in the governance of these organisations to have people who are in there. Okay they are subject to the same fiduciary obligations as every other director because

you're a director of the bank, but they are people who have had an experience in their public careers as to ... they would be *au fait* with Government policy or public policy and would be bringing that perspective to the table while others from the private sector expertise might be bringing a commercial experience to it. It was a balance if you like, to try and ... to demonstrate (a) that it was important that there be public interest directors and (b) that they would be capable of ensuring that at board level people understood what the public policy priorities of Government would be in respect of how they were conducting their business.

**Senator Michael D'Arcy:** Just to finish, in terms of the ... you used the term "talks about talks" prior to the actual bailout. Was it possible not to take the bailout when the talks about talks were known and the IMF were in town?

**Mr. Brian Cowen:** Yes well I think it's ... as I said it was in our interest to go into the bailout once we had ... into that programme once we had the conditionality sorted out in our own minds and that they were on the same track. It was still possible having conducted a negotiation. It was quite entitled as a party and say, "We don't agree with this proposal." But I mean it would not make much sense if you were walking away and did not have a plan B. The plan B would have to be how are you going to fund your deficits and the markets weren't funding our deficits at that point. They were but they were doing it at a rate that we didn't believe was affordable and putting more burden on taxpayers and therefore more burden on the sort of corrections and adjustment you'd have to make because you were already in deficit *vis-à-vis* what you were spending and what you were bringing in. So you have got to be pragmatic. It doesn't mean you try and, as I said, negotiate and discuss to get the best possible terms. But the best possible terms wasn't about how we to we evade our responsibilities, the best possible terms was how do we undertake our responsibilities in a way that optimises our ability to get back, not just to a public finance balance but also do it in a way that maintains social cohesion and provides economic prospects as well to the best extent we can.

**Chairman:** A supplementary, Senator.

**Senator Michael D'Arcy:** I ask Mr. Cowen what's the single biggest mistake that was made in the era from '00 to '08?

**Mr. Brian Cowen:** I think a lot of mistakes, I suppose, were made. I think that the biggest mistake we all made was failing to analyse as regularly - as Regling and Watson analysed it - when you're in a new currency situation, where interest ... you no longer have control over your interest rates, you've got to find other parts of the toolkit to make sure you don't end up where we ended up. In other words, your fiscal policy and your incomes policy has to be ... has to compensate for the fact that you ... when your economy is growing, when your economy is moving ahead at full-trend growth, you can't produce interest rates as a domestic policy instrument to calm down the economy, so you've got to find other ways of doing it in a monetary union. There's great benefits to being in a monetary union, but that's a lesson that we certainly have to learn.

**Chairman:** Thank you very much, Senator. Just check mobiles there. I'm just hearing a bit of noise coming off microphones there. Okay, next questioner up is Deputy Joe Higgins. Deputy, ten minutes.

**Deputy Joe Higgins:** Yes, thanks. Mr. Cowen, when the national recovery plan was drawn up in early November 2010 by your Government, was that drawn up and tailored to the expectations of a troika bailout?

**Mr. Brian Cowen:** No, it was needed anyway. We needed ... if the market ... if the markets improved for us and we are to go out on the bond market and fund our State with money from those bonds, we still had a job of work to do to get our ... to get to a sustainable position between what we were spending and what we were earning and that was-----

**Deputy Joe Higgins:** Well, the terms of it, Mr. Cowen, is what I mean. There was ... there is a famous or ... well, a famous Trichet letter of 19 November, but there is an earlier letter from Trichet to Brian Lenihan on 15 October and it's in your core booklet, page ... Vol. 5, page 31-32. But the last paragraph on page 32 is to quote Mr. Trichet, "As I told you, a key element of the monitoring by the Governing Council of Eurosystem exposure to the Irish banking system, and the related decisions the Governing Council may take, will be its assessment of *progress in implementing the four-year economic strategy* that the Irish Government envisages to announce in early November." And then goes on a little bit and says, "I trust that the four-year strategy will target a fiscal deficit of below 3% in 2014 and a decline in the public debt-to-GDP ratio from [2010/12] onward...as well as a strong structural reform programme", which, to the ordinary person, means strong austerity.

**Chairman:** Is that "2012/13 onwards", Deputy?

**Deputy Joe Higgins:** Yes. But this ... well, the structural programme, it doesn't say, but what is being demanded essentially is the type of austerity that you implemented. So, were you ... did you draw up that programme in the expectation that you would be reliant on the troika and, therefore, that you would go along with what they were demanding?

**Mr. Brian Cowen:** Well, no, the letter dated 14 October relates, as you say, to a four-year economic strategy that was being prepared and developed by the Irish Government at that time. It is true to say that, before that, back in September, from September on, the ... as I was saying earlier in a previous session, the Minister for Finance was discussing with Commissioner Rehn, in the normal way between member states and the Commission, what our plans were for fiscal consolidation in the following number of years. We had to ... we hadn't a sustainable position, Deputy, that we could contain. So in other words, he is simply here confirming that he hopes that the strategy that we're developing will meet these things he's talking about. Now we were, it was clear ... under Stability and Growth Pact rules, we wanted to get back to below 3% as quickly as possible. We didn't want to be in excessive deficit procedure with the European Union. We also wanted to obviously start reducing the public debt-to-GDP ratio because, if it kept going up, you could get to a point where it wouldn't be sustainable and you ... the sort of measures you'd have to contemplate at that stage would be even more severe than the corrections we had to contemplate. So, whilst he's setting out here parameters, it's as a result of discussions that had been taking place with the Irish Finance Minister that he is coming, sort of, saying, "We hope that the strategy that you had is going to be along the lines that you've suggested." We were suggesting these programmes.

**Deputy Joe Higgins:** And then, Mr. Cowen, the letter of 19 November from Mr. Trichet to Mr. Lenihan, were you quickly made aware of this letter?

**Mr. Brian Cowen:** Yes.

**Deputy Joe Higgins:** Did you see it in any way as an economically threatening letter from the ECB?

**Mr. Brian Cowen:** Well, I saw it as ... I knew that there were discussions ongoing ... that

they were aware of what we were trying to achieve within the European Union institutions ... certainly the Commission. And it seemed to me that the Central Bank was acting on the basis of it meeting ... it had ... saying it wasn't going to continue with liquidity assistance *ad infinitum*. They were bringing that to our attention. Now, had they just rung the European Commission they'd know that we were working on and finalising a programme that would meet the requirements of ... our own requirements and their requirements in terms of working within the Stability and Growth Pact. If you're a member of a currency union, you have to work within the rules. And if you go outside the permitted deficit, you have to give an indication as to how you're going to get back within deficit otherwise - if everyone does their own thing and deficits just balloon - you undermine the credibility of the currency. So, you have to play by the rules. So the benefits you gain can sometimes mean that you have to also comply with the rules. And they're there for good reason, they're there for our benefit as well because I think we're in a better place now than we were at this time that were ... under discussion.

**Deputy Joe Higgins:** Mr. Cowen, Mr. Trichet was demanding that you essentially bail out the banks but funding taxpayers' money in. And in ... then, in the second last paragraph, "I'm sure ... you are aware that a swift response is needed before markets open next week". Did you see that as him trying to blackmail the Irish Government to panic ... into a decision? And did you consider threatening the ECB back, saying, "Why should we ... or on what authority do you demand that the Irish Government would place the burden of German and French and British banks, and US banks perhaps, private banks, onto the shoulders of the Irish people?"

**Mr. Brian Cowen:** What we were doing ... it wasn't a question of panicking, it was a question of meeting the urgency of the situation where the ECB had come to a view on the fact that there needed to be a change to the present situation of funding the Irish banking system. There was a need ... so there wasn't a question of panicking, there was a question of we being at an advanced stage of discussions with all of the institutions on that point. We were also trying, as I said earlier, to get to a position where we got the maximum possible leeway we could, given that we had very little room to manoeuvre but it was worth trying to do that. But, thirdly, the question of a programme was something that the Irish Government saw as their duty to undertake anyway. We needed to show to the international community ... investor community, as well as everyone else, that we were serious about getting our public finances ... continuing to move down a path that we had started. And we had gone from, you know, serious contractions, starting in '08, worse in '09, then a slight GNP increase in '10 and then moving on to '11 where IMF and others were starting to say, yes, you will see growth coming back into this economy, you will see employment being created again, because we are starting to get our house back in order having come through this crisis. So that's where we were at. It wasn't ... you know, it's often portrayed that, you know, we we're in ... we have to recognise this, its often portrayed that everyone was imposing things on us. We had things to do in our own interests, regardless of what others thought about it. You couldn't continue to run deficits of 11.5% or 10% GNP - its not possible to do that.

**Deputy Joe Higgins:** And, Mr. Cowen, in 2008, around the time of the guarantee and after, when, you know, big depositors and bondholders can essentially threaten banks by shifting large amounts of money ... two weeks ago the *Financial Times* reported that the current Minister for Finance, Mr. Noonan, and German Finance Minister Schäuble argued for capital controls in Greece to stop major funds leaving Greek banks. Did you ever consider that here?

**Mr. Brian Cowen:** Consider?

**Deputy Joe Higgins:** Capital controls rather than the route you took?



**Mr. Brian Cowen:** No, the question of capital controls, thankfully, didn't arise in Ireland because the decisions we made when the crisis hit us on 29 September, as I say, bought us the necessary time to re-establish ourselves over a period. I mean, if we had a situation where, given what had to be done on 29 and 30 September that we weren't capable of making a decision, and if there was a bank closure, the impact that would have on public sentiment, on a run on other banks, you know, we don't ... we don't have ... we don't wish to see that happening anywhere. I don't like to see it happening anywhere. And I'm just saying no, we didn't get to that point. They got to that point in Cyprus. They got to that point in Greece. And I hope they can find a way out of it that's ... will alleviate the hardship of the people that are suffering under this situation.

**Deputy Joe Higgins:** And, Mr. Cowen, when ... essentially, what many people would regard as a horrific programme of austerity was to be imposed on the Irish people to bail out the banks, did you ever consider a referendum of the Irish people on that bailout programme? And, in retrospect, how do you justify putting a burden of €64 billion on the ordinary people for debts of banks and bondholders that they had no responsibility for?

**Mr. Brian Cowen:** Well, I mean, the programme ... no, I didn't consider a constitution for it in respect of what is a parliamentary matter. It's a question of going to ... we have a Constitution and the Constitution speaks about our parliamentary responsibilities, our governmental responsibilities. You require a referendum in respect of a change to our Constitution - there was no constitutional amendment required in respect of this. This was a legislative matter, a matter tied up with our membership of the European Union. So that didn't arise. And, secondly, the fact is that, you know, when people talk about the difficulties that it caused, and I know it caused difficulties. But I often think what difficulties would it have caused if we didn't meet our responsibilities, if we left, from 2008 saying, "We won't do anything about this, we'll just give out about it and say nothing about it and let the deficit stay at 20%." I mean, who was going to fund this 20%? Who was going to produce this €1 in every €5 that was being spent by Government outside of what we were able to create ourselves? You know, you've got to face up to it that we've got to bring it back into balance and, as I say, we lost ... we had 2006 ... we'd 2004 or '05 levels of taxation we had to get back to 2006, 2007 levels of expenditure and that's not easy. But the alternative is to continue with levels of expenditure in 2013 and 2014 knowing that you're going to hit a wall and you're end up with 1977 levels of expenditure and 1980 levels of tax revenue. You can't ... you can't fly in the face of what's in front of you and what's in front of you is, get back growth as quickly as possible, get your public finances back in order as quickly as possible, consistent with doing the best you can for those who are least able to take it. But get back, in the interest of those very people, because you won't be able to provide public services for them in the future if you don't do it.

**Chairman:** Well, a supplemental now, Deputy, quickly.

**Deputy Joe Higgins:** The point is there was lobbying going on by property interests in 2008, in towards the end of 2008 in response to the crisis that was going on and in preparation for budget 2009. *The Irish Times*, on 9 October 2008, refers to Derek Quinlan of Quinlan Private lobbying the two Brians, meaning Brian Cowen and Brian Lenihan, in relation to necessary - as he put it - action for the construction property sector. Do you remember being lobbied by Mr. Derek Quinlan in 2008?

**Mr. Brian Cowen:** No, I don't believe I was lobbied by Mr. Quinlan in 2008. I don't recall any such meeting.

**Deputy Joe Higgins:** Not a meeting necessarily, but in any way.

**Mr. Brian Cowen:** No, I wasn't. Not that I ... I mean, you're asking me did I ... do I recall meeting the man. No I don't. In respect of any lobbying, no I don't. Did he ever lobby me? No, I don't believe so, he ever lobbied me. I think I met the man once in my life.

**Deputy Joe Higgins:** Okay, thank you.

**Chairman:** Thank you. Mr. Cowen, just before I bring in Senator O'Keeffe, I just want to clear up one thing. It's just in your witness statement there, 202, and it might be just a chronological error or maybe it's saying something else, but you say that on 4 October, Minister Lenihan received a letter from the ECB President, Jean-Claude Trichet. Now, in the documents that we have, the first letter that came in from Mr. Trichet is the letter, I think, of the ... actually, this is Deputy Higgins that was talking about it a while ago ... is the letter of 15 October. Are you saying that there is another letter before the letter of 15 October from Mr. Trichet, or is that just a chronological error?

**Mr. Brian Cowen:** It may be a typo, Chairman. It may be a typo. I think this is a letter that Mr. Higgins was referring to, I think that's the letter. I think that's the one I'm talking about there ... what, what paragraph am I?

**Chairman:** It's 202 in your own opening statement there. It's on the screen there.

**Senator Susan O'Keeffe:** Page 28.

**Senator Michael D'Arcy:** Top of the screen.

**Chairman:** It's on the top of the screen there Mr.-----

**Mr. Brian Cowen:** Sorry, I don't know Chairman, you might check with the Department of Finance whether that's another letter.

**Chairman:** Okay and you might just if you can ... if you could maybe just, after today's proceedings maybe just do a double check in that because if there is another correspondence there, we would like to see sight of it.

**Mr. Brian Cowen:** Okay.

**Chairman:** Thank you very much. Okay, Senator O'Keeffe.

**Senator Susan O'Keeffe:** Thanks Chair. Mr. Cowen ... it's ... DOF03558. There was a decision to proceed with an injection of €3.5 billion for Allied Irish Bank, given that it was clearly outlined that this amount was insufficient to meet their capital needs ... Allied Irish Bank ultimately required a total capital injection of €19.8 billion. Can you comment on the decision to proceed with that injection at that point?

**Mr. Brian Cowen:** Yes well, as I understand it the ... that was about increasing capital in the banks because of the fact that the market expected capital ratios to be higher than had been the case during less turbulent times. And those discussions took place between Department of Finance people, Brian Lenihan may have been directly involved, I can't recall, and the banks themselves. That was regarded as being not, we're not saying when that initial capitalisation was made that that's all that was ever required, although at that point it looked like it might be all they ever required, because you didn't know until you actually got into this question of loans

and getting the NAMA process going. And it didn't seem to me, or else they were very much in denial, it didn't seem to me that they thought that they were in that sort of trouble either. So, I think what was, I was reading some transcript here, it may have been Mr. Cardiff, who would be *au fait* with the logistics of this thing, that they agreed on €3.5 billion each between both banks in order to show parity between the two of them even though Bank of Ireland could have taken three and the others could have taken four. So AIB insisted on €3.5 billion as being sufficient. So that's just the detail.

**Senator Susan O'Keeffe:** If I can, if you don't mind, if I can go back and ask you two short questions from this morning before I go on? Who appointed Alan Gray to the board of the Central Bank?

**Mr. Brian Cowen:** I did.

**Senator Susan O'Keeffe:** And in relation to Eugene Sheehy, when he was talking about the night of the guarantee, he made a remark that the expression of putting into the final statement issued by Government the idea that all the banks were solvent, that he and others said that ... I think it was he and the other bankers disagreed with that, that they didn't think it was a good idea to say that. I'm just wondering do you have any recollection of that because it did not appear in the final statement?

**Mr. Brian Cowen:** Yes, well no that wouldn't, that didn't ... that conversation I don't believe happened in my presence. It may have happened when they were drafting or talking about it. I understand, again, reading from documentation that, that may have been on the basis, I think even the regulator was ... if I'm right in this I'm not sure, saying that his job wasn't to give a warranty either, it was a question of leaving that out rather than sinking the ... they weren't solvent but I think probably though the banks, those two banks didn't want to be involved in deciding on other people's, what other people's position was. They clearly didn't know what their own was.

**Senator Susan O'Keeffe:** When Professor Honohan was here with us he said there was a change in attitude in 2010. He said:

when I came in [in] 2009, I realised that nobody was particularly concerned about Ireland. They were concerned about Greece and ... how they were going to manage [that].

And so, effectively, the change in attitude occurred in August 2010. Would you agree with that? Was there a kind of calmness before the storm, so to speak?

**Mr. Brian Cowen:** Well obviously, you know, the Greece thing came up in April or May of 2010 and they were having to deal with that. And what they had to do there was, as you may recall, it was on the basis of bilateral agreements between member states and Greece. You didn't have the ESFS and the ESM funds set up at that stage. It was in the aftermath of having to do that with Greece that they subsequently spent the next number of months creating this fund and working out the logistics of all of that and how that would work and how it would be funded, etc., etc. and-----

**Senator Susan O'Keeffe:** Do you think it was true that no-one was particularly concerned about Ireland, nobody in Europe I mean?

**Mr. Brian Cowen:** Well, he's talking about the ... presumably he's talking about the governing council of the ECB. So that's an observation from the member of the governing council of

the ECB. They had one problem on their hands, they weren't thinking of looking around for others.

**Senator Susan O'Keefe:** One of the officials at the ECB was ... told one of the newspapers in 2011, he said this kind of boldness that Ireland had achieved in 2009 was not repeated in 2010. On the contrary, the impression was that actions were delayed while uncertainties about what would be done increased. He said Jean-Claude Trichet made several attempts in private conversations on the margins of the European meetings to urge Mr. Cowen and Mr. Lenihan to move swiftly. He said, "We took all opportunities to tell the Irish Government they had to take bold actions very quickly." This is suggesting that they were urging bold actions and none was happening. What would you-----

**Mr. Brian Cowen:** I don't accept ... I don't accept for a moment that none was happening. We had made ... we had taken the largest number ... the largest size of adjustment *vis-à-vis* our GNP in the previous three years. He didn't have to talk to us about bold steps, we knew what bold steps were. But we also had to make sure that they were realistic ... politically realistic steps. I mean, there's some people in the euro system who thought if you have a deficit of €15 billion why can't you take €10 billion off it next year? I mean they don't have a responsibility of answering to people here. We're democratically elected. We have to have our input on what we believe is possible and responsible while at the same time being committed to the same targets they're committed to. Bankers have ... you know these guys have that luxury. They don't have to worry about what the impact of all this might be on people. We do.

**Senator Susan O'Keefe:** In that same letter that Deputy Higgins referred to Vol. 5, pages 31-32, the letter from Mr. Trichet to Brian Lenihan in October 2010. It says, "I would like to re-emphasise that the current large provision of liquidity by the Eurosystem and the Central Bank of Ireland to entities such as Anglo Irish Bank should not be taken for granted as a long-term solution." Were you taking it for granted? Were you continuing in this manner or were you, meaning you the Government, concerned that actually this better stop quick, because we've gone beyond our limit?

**Mr. Brian Cowen:** Well we, you know, no we didn't see where we were at as a long-term solution but we were prepared to engage to try and find solutions but we'd need funding mechanisms to find those solutions and to do it in a way that didn't leave us in an unsustainable position in terms of our debt, the growth of our debt. We had real commitments to fund our deficits in terms of providing social and public services. We had this other problem in our banking system which was not making it easy for us. And when we acted transparently in terms of going through every loan in every bank that was problematic and putting a value on it and providing the bonds to these banks to go and present to the European Central Bank, that was improving the liquidity position *vis-à-vis* the European Central Bank and Irish banks. But of course we had this one-off impact on our deficit because it had to be part of your GDP and that brought it up to, what was it, 30%?

I hear, you know I hear Government representatives in recent times talking about the fact that they brought the deficit down from 30% down to what it is. I mean, they don't mention the one-off statistical impact that that decision we made had. They have done well on reducing the deficit, I am not here to be churlish about that. But I don't think they should exaggerate either that they've reduced the deficit by 27% all on their own, clearly they haven't. And ... so, I mean, that's ... you know, let's all be honest with each other here. There were one-off hits on that deficit figure that weren't there next year which is one of the reasons why you're getting down to the figures you're getting down to. Otherwise you'd never get down. So I just think,

you know, when we're having public debate, there's sufficient achievements for everyone to ... in terms of correction of the public finances without exaggerating.

**Senator Susan O'Keeffe:** Again, when Mr. Honohan was here, he indicated that around Tuesday, 16 November, that Wolfgang Schäuble had asked Mr. Lenihan-----

**Chairman:** Who said this?

**Senator Susan O'Keeffe:** Sorry, Mr. Honohan said this here, that Wolfgang Schäuble had asked Mr. Lenihan to apply. He said that he'd had a conversation himself, Mr. Honohan had, with Mr. Lenihan and that Mr. Lenihan was cross and said "I don't understand, why are they trying to rush me?" Now, do you know anything about, you know, why ... what was going on there in terms of the dynamic, in terms of feeling rushed? Was there a feeling all that time that pressure was coming? Or was it that the ECB, and others, were losing patience, that Ireland was not, if you like, getting on with the task? Even ... I know that the talks were going on but obviously there was pressure coming on.

**Mr. Brian Cowen:** Yes, well, I mean, that comment from Brian is in line with, sort of, what I've been trying to explain in the previous session which is, you know, we weren't going to renege on our responsibilities but we needed some room and we needed some ... not a lot of time, we needed a small bit of time as we were trying to satisfy ourselves that what we were being asked to do we could deliver and we could do it in a way that was consistent with what our own plan was suggesting.

**Senator Susan O'Keeffe:** But why did they not understand that? I mean, they were negotiators.

**Mr. Brian Cowen:** There are some people who don't ... I don't ... I don't know, I can't answer for their ... for that. They should understand, they're professional people, they're politicians - some of them - there's others who are ministers in governments and they are not politicians and they're more of a technocratic background or whatever. But I don't know why that was the case because in Brian Lenihan they had a very credible Minister for Finance who had ... who had been delivering budgetary results that were making changes and adapt ... and adjustments greater than any other EU country. Now, we had further to travel so why they should question the fact that he was simply trying to manoeuvre to a position where he could formally recommend to Government that we apply for a programme, based on the discussions he would have had and the clearing up of some issues that he wanted cleared up to his own satisfaction ... I think, in that respect, he was frustrated and treated somewhat unfairly by his colleagues.

**Senator Susan O'Keeffe:** And did he communicate that frustration and that pressure and tension to you?

**Mr. Brian Cowen:** He had a soulmate in me in terms of the same frustration and upset about it. I think the ... you know, the ... we were going about our business properly and appropriately. And if it meant them holding back all of their anonymous sourcing or whatever they were doing for a week, maybe they could respect us and allow us to do that without us having to content with all that stuff as well as trying to deal with the situation at home.

**Senator Susan O'Keeffe:** Thank you.

**Chairman:** Thank you very much. Senator Barrett.

**Senator Sean D. Barrett:** Thank you. Did you ever challenge the firms who advised the Department of Finance, the regulator or the NTMA after the final NAMA figures were known?

**Mr. Brian Cowen:** Well, we certainly at Cabinet asked for explanations to what was the ... what was the reason for this discrepancy. And, in fairness, I suppose, the Governor of the Central ... the people who were doing the capital assets reviews through the Central Bank, the Governor and, I remember, the regulator - both Professor Honohan and Mr. Elderfield - attended a Cabinet meeting at which this was discussed in some detail and explanations were given. It doesn't mean that ... you know, it doesn't mean that it was nice to hear it but the fact of the matter was that the situation was even worse than we had expected, anticipated or had been communicated to us. And, as I say, bankers were either in total denial of what their situation was or they were finding it very hard to communicate the reality.

**Senator Sean D. Barrett:** Shouldn't you have insisted on the whole lot of them supplying you with P45s on the night of 29 September? Shouldn't they have left? The penalty for that kind of failure is ... you know, you're bad at running a shop, it shuts down. These guys were hopeless-----

**Chairman:** Mind ... mind ...mind, Senator, or otherwise we'll all be going to the bathroom for a quick break.

**Senator Sean D. Barrett:** Thank you, Chair. On their record, should they not have resigned that night?

**Mr. Brian Cowen:** Well, I mean, in relation to the banking situation, it was a private banking system but we obviously, you know, brought forward proposals about public interest directors, we brought forward proposals ... there was ... there were ... changes in management subsequently happened. There were people who retired. You know, the employee-employer relationship in this case sometimes was between the authority and the employee concerned, it wasn't with the Government. But the Government, I think, did articulate that it wanted to see some changes, and some changes did come; a lot of changes came.

**Senator Sean D. Barrett:** Does it illustrate moral hazard that those who were at the centre of this largely succeeded in making other people pay for their mistakes?

**Mr. Brian Cowen:** I think what it highlights is that in a regulated industry, and one as central to the economic life of a country, the question of proper regulation and proper oversight of these institutions, given the impact they can have on ordinary people's lives, means that we must never, we must by whatever means possible, make sure that this never happens again. And, you know, I can only say that I am very sorry that I was there in government when some of this came to light. In terms of, I've said, "Was I not doubting enough, was I not questioning enough"? I've asked myself, I can assure you, on many occasions, privately, was there anything else that ... what did I miss and why did I miss it, and all the rest of it. But we are ... you know, the situation is that there have been many lessons learned, new institutional arrangements in place, new personnel in place, new legislation in place, a much more rigorous and better regulatory regime now than we had in the past, and there is absolutely no room for complacency, either personal complacency or institutional complacency, in dealing with matters of this vital importance in the future.

**Senator Sean D. Barrett:** Should there be compulsory rotation or turnover of accountants?

**Mr. Brian Cowen:** I think all of these things, yes, there should be no ... I think, all of these

things are right and proper that you need, on the one hand, to have the institutional memory; on the other hand, you need to make sure that there's sufficient distance and avoidance of regulatory capture in whatever way is necessary. If that means switching around these things every two or three years, well, so be it.

**Senator Sean D. Barrett:** Should we separate the-----

**Chairman:** Sorry, stop the clock for one second. I am just getting reports there of ... there is broadcasting interference with mobile phones inside in the committee room, so I will be asking all members, it's not just sufficient to have your phone turned off when you are actually speaking, you are interfering with other people's contributions as well. You can put them on to safe mode and have them on Wi-Fi, but it's affecting both the broadcasting and it's affecting the website loading on of these engagements later on as well. And it's unfortunate if a member has a line of questioning that may wish to be broadcast later, that that can't actually be used because of phone interference. And I would give the same notice to those in the public Gallery as well. If they're in proximity of the witness, please have their mobile phones switched off. Re-commence the clock again there please, Senator.

**Senator Sean D. Barrett:** My microphone is on but the phone is somewhere else.

**Chairman:** Thank you very much, Senator.

**Senator Sean D. Barrett:** Should we separate auditing from consultancy services? In some of the evidence presented, there seemed to be too close a connection between auditors, the other departments of the audit firms, and the body they were supposed to be auditing in the public interest.

**Mr. Brian Cowen:** Yes, I think that the level of failure in our system was such, on this occasion in this country, that everything must be seen to be rigorous in every respect, and if it means changing those, sort of, arrangements, they should be changed in the interests of people being reassured that there aren't any relationships there that are regarded as too cosy.

**Senator Sean D. Barrett:** You refer, in paragraph 25 in your own statement, Mr. Cowen, that the analysis was "hopelessly optimistic". Should a haircut have been applied to the people who supplied what turned out to be unreliable advice to the Government and, indeed, to the banks?

**Mr. Brian Cowen:** I was making the point that these processes of going in and having a, sort of, a sample of loans, and trying to work out from that what the likely overall situation is, depends on, in many cases, the accuracy of management information too, and if you want to have an absolute understanding of every single loan in every bank that was problematic, you had to go the NAMA route; that's the truth of it, because sometimes you might have had a performing loan, or a reasonably performing loan, and you might have a security underlying it that was defective. So, therefore, when it came to getting that loan sorted out, you hadn't the legal wherewithal to do it because the various legal niceties hadn't been observed. So there might be another loan where it's non-performing but you can get paid because the security is good. So you've got to actually to get into this thing on a micro level. The point is regarding our regulatory system, we now have a far more intrusive one. I've read ... or I've read where Mr. Elderfield, I understand, is going to be submitting his proposals to you. You know, the experience of people like that, I'm sure, will be helpful to the committee in coming with recommendations that build on the improvements we've seen thus far.

**Senator Sean D. Barrett:** How do you feel that this all happened, what, seven years ago and so many of the people at the centre haven't really paid much in the way of penalties?

**Mr. Brian Cowen:** Well, I mean, I can't go into criminal law issues. I mean, the issue is we have processes in place in this country regarding corporate enforcement, regarding a whole range of issues. And we have a legal system and we have due process has to be observed but, you know, so, if we can find a way which is respectful of citizens' rights and, at the same time, more efficiently undertaken in terms of time, that would greatly assist public confidence in determining whether the public realm responds as appropriate, as private citizens expect given the seriousness of the situation that we're talking about.

**Senator Sean D. Barrett:** In the American system, as you know, I think the top ten accounting scandals have averaged fines of \$700 million and jail terms of 15 years on average. Should we think of a system that rigorous?

**Mr. Brian Cowen:** Well, as I say, I mean this is a matter for the Oireachtas to decide on the laws of the land and it's a matter for the Judiciary to decide on the facts of every case.

**Senator Sean D. Barrett:** Thank you very much. Thank you, Chair.

**Chairman:** Thank you very much, Senator. Deputy Pearse Doherty.

**Deputy Pearse Doherty:** Go raibh maith agat. Mr. Cowen, in your statement, you said with regard to the Financial Regulator there was:

A failure to properly judge the risk that was building up in the banks and that the 2003 legislation dividing the micro and macroeconomic responsibilities between the Financial Regulator and the Central Bank did not work as well as intended, and that consumer protection aspects were emphasised at the expense of the prudential responsibility that the Financial Regulator had.

Now, we know that the Financial Regulator was accountable to the Oireachtas through the Minister for Finance. So do you think that a part of the failure of the Financial Regulator was due to the lack of oversight from the Minister for Finance and the Oireachtas?

**Mr. Brian Cowen:** Well, I think we have to come to a conclusion that the oversight wasn't effective. As you say, he was answerable to the Oireachtas, you've heard from the Department of Finance people as to what they saw their role as. In many cases in the past, we had moved over time in terms of public administration to get Departments out of day-to-day affairs of various agencies and people with other responsibilities and get on with strategic policy planning and all this. But I agree with you that you've got to find a balance there all the time and you can go from one extreme to the other where you have interference on day-to-day issues and then you go to the point where you ... the oversight is such that the independence of these agencies allows them to continue on without the act of oversight that you would hope and expect. I just think there are lessons to be learned from that and I think that, you know, you'd have to conclude that, yes, there would be need to be improvement in both cases.

**Deputy Pearse Doherty:** And it's been reported before that during your tenure as Minister for Finance, which spanned a four-year period, that you met with the Financial Regulator, Mr. Neary, on two occasions during that four years. Would that be a correct view? I think it was reported that your official diary suggests that.



**Mr. Brian Cowen:** Yes, well as I say, I met the chairman too on a number of occasions but I take the point that there was a view, and a public administration view, that the statutory independence of regulators must be respected and I accept that. But I also accept that given what happened here, there is a need for a more structured interface between a Department of State, like the Department of Finance, and these bodies, and I think if a lesson is to be learned is: the assumption that there isn't a problem because none are being communicated to you either by the non-executives or by the executives doesn't cover the situation sufficiently given what's happened here. And we have ... I hope-----

**Deputy Pearse Doherty:** Did you only meet the financial ... the question is because I am not sure if that is correct or not, did you only meet the Financial Regulator, Mr. Neary, on two occasions during your four years as Finance Minister on a formal capacity?

**Mr. Brian Cowen:** Yes, that would be the case. That's the only time that he sought to talk to me about anything on those issues. But I did talk to the chairman, he was more ... for the non-executives, normally the situation with a Minister is that you meet the chairman and-or the chief executive.

**Deputy Pearse Doherty:** Mr. Cowen, like, we have discussed earlier on in this morning's evidence that you met Seanie FitzPatrick for a game of golf, you had a private dinner with him within a number of weeks within 2008. Yet, in a four-year period where there is a responsibility for oversight on the Financial Regulator; you only met with the Financial Regulator on two occasions during a time of turbulence at that time in terms of credit boom and so on and so forth. How can you justify that position?

**Mr. Brian Cowen:** Well, I have justified the position on the basis that we were involved in contingency planning and the co-ordination took place between all of these, the Department of Finance, the regulator, the Central Bank, on an ongoing basis from August on. I didn't meet the regulator himself, personally. But the fact is that there were people reporting to me in respect of work that was being done by all of these people. The issue of ... on the one hand, as we all know; it is important that there isn't any political interference in an independent regulatory system, particularly one like this. But I have acknowledged that by the same token, if we are to learn lessons from this; is that we need to have some sort of more structured interface between the Department and the agency.

**Deputy Pearse Doherty:** Mr. Cowen, in late 2008 to early 2009, in your view, did the guarantee decision stop working in terms of giving Irish banks the sufficient access to non-ECB liquidity? And the reason I point this out is on page 4 of the evidence book on, sorry, on page 3 of the evidence books, Vol. 5, there is a note there which clearly states that - and this is on ... this is in March 2009, just a number of months after the guarantee decision to provide the liquidity. It says that:

At present Irish banks face an extremely unstable outlook. In recent times they have experienced major withdrawals of deposits and established credit lines leading to substantial recourse to the Central Bank for short-term liquidity support. This is not a sustainable trend and if it persists would be expected to lead to a serious systemic issue for the Irish banking system over the coming weeks.

This is within months of the Government bringing in a guarantee with contingent liabilities of €440 billion on the Irish State to provide exactly liquidity but this note from the Department of Finance is saying it's no longer working.

**Mr. Brian Cowen:** Well, it's true that what the success of the guarantee on the night was to restore liquidity that was badly needed at that critical time. It was a success for a short time and as you say, sentiment against Irish banks continued. But it also provided us with the time and space to try and deal with the issues as they arose, including a recapitalisation and other arrangements that had to be put in place like NAMA and all the rest of it. So, you know, I am not suggesting, no more than the guarantee was the source all the problems of the Irish banking system, I'm not suggesting the guarantee was the source of all the solutions to the banking system.

**Deputy Pearse Doherty:** How long did the guarantee work for in terms of providing non-ECB liquidity? It's clear here that it has failed by-----

**Mr. Brian Cowen:** Months-----

**Deputy Pearse Doherty:** -----March-----

**Mr. Brian Cowen:** Months, yes.

**Deputy Pearse Doherty:** So, a number of months?

**Mr. Brian Cowen:** Months.

**Deputy Pearse Doherty:** Was it, was it working, was it providing liquidity to the banks non-ECB liquidity in January of 2009 still?

**Mr. Brian Cowen:** Just about.

**Deputy Pearse Doherty:** Just about.

**Mr. Brian Cowen:** Yes. So, the point is, the question about the guarantee was to stop a run on the banks to stop an implosion of the banking system. But the inherent weaknesses in the banking system and the losses that were yet to crystallise in the banking system and to emerge were there. They were there before 29 September and they were there after 29 September. But it is often portrayed that it was that decision on the night that brought that loss. It wasn't. The purpose of that, that night, was to avoid an implosion of the banking system.

**Deputy Pearse Doherty:** Mr. Cowen, on page 4 of the same document; there is a memo from the Department of Finance. It says:

The deterioration [of] Irish credit terms associated with the national fiscal position has been compounded by the additional contingent liabilities of ... €440bn under the bank guarantee scheme and the fact that deposits and access to international credit markets have not been stabilised as a result of the Guarantee is compounding the perception that the contingent liabilities could be realised through a bank default which would impact very severely on the State's financial system and creditworthiness.

Mr. Cowen, in this memo the Department of Finance appears to be putting forward the analysis that by March 2009 the guarantee decision is having a direct negative effect on the national fiscal position. Would you concur or not with the analysis at the time from the Department of Finance?

**Mr. Brian Cowen:** Well, Peter Bacon in his report was suggesting that, obviously, it was a drag on the ... on the credibility, if you like, of the sovereign going forward. And it did have a negative effect in that respect. I accept that. And that was something that was a concern even

when we were making the decision. But the point is we couldn't allow the alternative to happen either, and the alternative to happen could be where the banking system would deteriorate and a run on banks would continue. So, you know, I'm not saying these are good options here. You're dealing with least worst options.

**Deputy Pearse Doherty:** But do you believe that the banking ... the banking, or the guarantee that was taken, which only lasted or had an effect for a number of weeks, the 12 week-----

**Mr. Brian Cowen:** A number of months.

**Deputy Pearse Doherty:** Well, to the 12 ... I was going to say about 12 weeks, and that's probably generous, if it's going up to the end of the year, had an impact on our bond yields, which had an impact on us having to apply for a troika bailout?

**Mr. Brian Cowen:** Yes, but the bond yields ... now let's remember, the bond yields came back into a far better situation when you got ... by the time you got to April ... March or April 2010. So, you know, there was a reaction to this, and then there was an easing off, and then when you get to April 2010, the bond yields are fine. We're well within our parameters to be continuing to go to the markets and obtain our money to fund our deficits. The problem happens in the Greek situation in May and June. That sends a big problem into the system again. In the same way that in 2011-----

**Deputy Pearse Doherty:** Yes.

**Mr. Brian Cowen:** -----summer of 2011, there was another problem.

**Deputy Pearse Doherty:** But, Mr. Cowen, the programme, the programme of assistance, as it's officially known, the €85 billion that was in that programme, €35 billion of that was provided, set aside for recapitalising of the banks. How can we credibly say that it was the problem of the Greeks, or suggest, in some fashion, that it was because of the Greeks that we had to go into a programme, given that €35 billion of that programme had to be set aside because of a bust banking system in this country?

**Mr. Brian Cowen:** Well, no, what I'm saying is that the Greek problems in April and May sent our bond yields way up so that we had to come out of the markets again. And that brought the pressure back on us to go into a programme, which involved the restructuring of the banks as well.

**Deputy Pearse Doherty:** Okay. Can I ask you finally, at the start of your evidence last week, you said that you fully and completely accept responsibility for the decisions that you had taken in relation to the crisis. Today you have expressed regret on two areas. You expressed regret that there was an incorporeal Cabinet meeting instead of a full Cabinet meeting, and you've expressed regret that there was no notes taken on the night of the guarantee. Is there anything of substance other than those two issues that you regret personally in terms of the responsibilities that you're willing to take in relation to your handling of the crisis?

**Mr. Brian Cowen:** Well, I've taken ... I take full responsibility in relation to my handling of the crisis. And, you know, people will apportion blame and responsibility wherever they will. I'm just simply saying that, as Taoiseach, I take my share of the responsibility in respect of what happened. And I do so because I'm duty bound to do that. Now, for political reasons or party political reasons, people will apportion a certain amount of blame greater than maybe is my due, but that's politics. But I have at all times sought to do what was right for the country,

to do what was right in a very difficult situation, to play our part in helping restore our public finances to a semblance of being able to get back growth and get going again, and I believe that we contributed to that, albeit in, as I say, you know, with horrendous decisions to have to contemplate. But we did it, and were prepared to do it. And, as I say, the responsibility I accept is where ... where it lies at the Taoiseach's office, I accept it. It's as simple as that. And that covers everything, all aspects of the work I did.

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

**Deputy Kieran O'Donnell:** Thanks, Chairman. Mr. Cowen, in your statement, you mentioned that the most important reform had been the reintegration of the Financial Regulator's office back into the Central Bank as a single organisation, and the skill mix has been upgraded. Can you outline why you think was more important, a substantial increase in staff numbers available for potential supervision of financial institutions? Like, between '09 and 2011, the Financial Regulator went up by 64% in numbers, by 243 extra people, and the Central Bank, in that period, went up by 227, 31%. So, can you just ... were both institutions understaffed, both in terms of numbers and in quality of staff-----

**Mr. Brian Cowen:** Well ... well, what I was saying, as a parliamentarian ... as a Government, in terms of the laws of the country, we ... I think the most important thing we could do was bring forward that Act that, sort of, improved, in my opinion ... and learned from the experience of what had happened ... about what we needed to do to make sure the Central Bank was fully integrated. And I refer to the fact that in February '09 I had looked at ... I had suggested that we needed to get to the ... use the Canadians as a model. It was the best model that I could see where there was a good regulatory culture, an effective regulatory system in place. Regarding the question of resourcing the regulator and getting more people in, certainly that was needed, given that what we had seen, and, as I say, the funding for that wasn't dependent on the Exchequer, the funding for that could be generated from within the balances of the Central Bank itself and a contribution from the financial services industry. So, you know, that ... so, I'm saying the most important thing we could do was the legislative reforms. I'm not suggesting that the personnel reforms that were brought in and the ... it wasn't also important, of course it was, because we learnt from the Honohan report about the number of people on the front line that were actually doing the regulating. It surprised a lot of people.

**Deputy Kieran O'Donnell:** Can I ... Mr. Cowen, when did you first realise that Ireland would have to go into a bailout programme?

**Mr. Brian Cowen:** When did I first realise it?

**Deputy Kieran O'Donnell:** When did you, as Taoiseach of Ireland, yourself, in a quieter moment, say "We are going to be going into a bailout programme?"

**Mr. Brian Cowen:** Well, when Brian Lenihan was able to say to me that ... "Look, we can go into this programme and there's a conditionality there that we can live with or that we can ... that reflects where we're at in terms of our own economic planning", then I said, "Well, obviously we can do it." Because there's no point going into a programme if you can't complete it or fulfil it.

**Deputy Kieran O'Donnell:** When was that, like, what date, would you have-----

**Mr. Brian Cowen:** That was around ... that was late November. It was sort of mid to late November.

**Deputy Kieran O'Donnell:** So, you would have felt, mid to late November, we were going into a bailout programme.

**Mr. Brian Cowen:** Yes. I mean, we formally applied on the 21st.

**Deputy Kieran O'Donnell:** Of November?

**Mr. Brian Cowen:** Yes.

**Deputy Kieran O'Donnell:** So, you're saying ... are you saying mid to late November or October?

**Mr. Brian Cowen:** November.

**Deputy Kieran O'Donnell:** Okay. And when would you feel that you lost control of the process in terms of determining the timing of that?

**Mr. Brian Cowen:** Well, we didn't ... we didn't lose control of it but... what happened was we certainly lost control of the ... the public relations around it during that week. And ... but, the ... in substance, you know, we had a Cabinet meeting on the Sunday - the 21st - and that's when we made the decision to formally enter the programme. And I've explained what the ECOFIN conclusions were leading up to that ... talking about continuing consultations. There was political pressure coming to bear from colleagues, there was, as I said, anonymous reporting going on - presumably from ECB sources - and what we were doing was asking, basically, that our position be respected, where a Government has to consider all of the ... all of the issues and come to its own conclusion in its own time, which wasn't going to be vitally different from where people were thinking about anyway.

**Deputy Kieran O'Donnell:** It was reported that ... that Commissioner Barroso made contact with you, we'll say, towards early ... we'll say around 10 or 11 November. Did that discussion take place and what did ye discuss?

**Mr. Brian Cowen:** Yes well I got a phone call from President Barroso I remember when I was engaged in a Donegal by-election at the time. And one of those weekends I was up there and I presume it related to ... at the time the G7 or the G8 was meeting, and he rang me to indicate that Ireland was being mentioned at those meetings as being a country that should consider whether it should go into a programme or not. And I made the strong point to him that, look, the Irish Government's position was that we were well funded well into next year. But obviously you know I was open to our people discussing with them what this conversation was about over there, to come and we'd talk to it in front ... man to man about it and see what the story is - or woman to woman about it - and see what the story is. So that was my interaction with President Barroso, saying to him, you know, "We are well funded, we're not seeking a programme." And then Brian was talking about, you know, was there a parallel programme, was there a probationary programme, was there something that we could be doing that would be available to us should we need it. And then that hardened up into an application to a programme.

**Deputy Kieran O'Donnell:** Did Commissioner Barroso ... was he pushing you to go into a bailout programme for Ireland?

**Mr. Brian Cowen:** He was simply reporting me to as Head of Government that it was being mentioned that Ireland should be considering its position and I said, "Well, we are considering our position. I want to remind you that we are well funded until mid-2011. There is no imme-

diacy here unless there are other things at work.” And one of the other things at work clearly was that in the following week or two, you had the ECB starting to come to a conclusion as to where it stood on liquidity assistance.

**Deputy Kieran O’Donnell:** And did you as Taoiseach, in terms of reports, look for the ECB to continue to buy Irish Government bonds at that stage?

**Mr. Brian Cowen:** They were doing that. They were continuing to provide liquidity assistance but they were sort of ... You know, from their point of view, they were hardening up as to saying, “This is a policy that we don’t see as being *status quo* plus for the next six or eight months. We need to do something or ye need to come up ... we need to come up with some ideas as to what we’re going to do.”

**Deputy Kieran O’Donnell:** Did they apply pressure in terms of saying they wouldn’t continue to buy Irish Government bonds?

**Mr. Brian Cowen:** Obviously, that letter of 19 November is the most explicit expression of that and we were ... we felt that, you know, we were acting in good faith and that our position needed to be respected as well.

**Deputy Kieran O’Donnell:** Can I go back ... Did NAMA contribute to Ireland ending up in a bailout programme?

**Mr. Brian Cowen:** I think, in fairness to NAMA, let’s be fair to NAMA ... NAMA was an initiative that was trying to identify all of the problem loans in the banks, in the covered institutions, taking them out of there and getting a situation going as quickly as possible where banks could show repaired balance sheets and get on with lending, get on with the business.

**Deputy Kieran O’Donnell:** The perspective I am coming from is, in the time I have is that ... NAMA originally was ... the plan was 30% haircut discount. It ended up, basically, being nearly 60%, nearly €19 billion extra of losses. You had to bring out a new, we’ll say, bank plan on 30 September, just literally a month and a half before you applied for the bailout programme. In essence, is it fair comment to say that the second bailout was really, in substance, a second bank bailout? And if that level of discounts ... if you hadn’t crystallised the losses in NAMA to the extent that you did, that the European authorities would not have been ... that it caused a degree of panic amongst European authorities in terms of the exposure of the Irish-----

**Chairman:** You’re out of time now, Deputy, so I’ll push you for the question.

**Deputy Kieran O’Donnell:** ----the Irish State to the banking sector?

**Mr. Brian Cowen:** I do not think that was the issue generally, Deputy. I think ... you see, we were dealing with this issue when it’s all boiled down far more up front and transparently than a lot of other people were. We’d identified the loans. Now as regards to pricing of them. If we accepted the 30%, then that would have been at a bigger cost to the taxpayer because you wouldn’t have got the haircut that you needed to get to make sure that NAMA in doing its work comes out with a positive balance.

**Deputy Kieran O’Donnell:** But that’s a long-term project.

**Mr. Brian Cowen:** I know that but it’s to say-----

**Deputy Kieran O’Donnell:** I’m talking about a short-term project in terms of the level of

exposure the Europeans saw in terms of Ireland Inc as a small country to the banking sector.

**Mr. Brian Cowen:** Well, it was a one-off hit on the GGB, let's be clear about that. But I take the point that part of the economic plan had to incorporate a restructuring of our banking system. That's a fair point ... that we had been struggling to try and get a solution where confidence was coming back into the banking system. And the basic problem was that our banking system had got too big for the economy that we had, and that meant that we had to restructure and reduce balance sheets

**Deputy Kieran O'Donnell:** Two final questions. Firstly, was that not an endemic weakness in terms of the controls and the management of the economy, when you were both Minister for Finance and Taoiseach, that we allowed the banking sector to get exponentially the size it got relative to the Irish economy? And, secondly, Professor Honohan when he was in here, stated that he went on the "Morning Ireland" programme on 18 November because his biggest concern was that there would be a risk of a run on the Irish banks. Did you have that concern?

**Mr. Brian Cowen:** Well, obviously, we were as concerned as anybody else and we were moving to a position in a matter of 48 hours, 72 hours to deal with that situation, so I mean, it wasn't going to happen in the next 72 hours.

**Deputy Kieran O'Donnell:** But wasn't there a risk of a run on the Irish banks at that time?

**Mr. Brian Cowen:** Well the Governor says there was so, I mean, I'm not going to argue with that. I mean, I'm not going to second-guess a Governor of an Irish Central Bank, but it wasn't imminent. It wasn't imminent. It was a concern that they had based on the fact that there was a confidence issue with the Irish banking sector still and we needed to find a restructuring problem ... a solution to that problem and the EU-IMF programme provided us with that solution. We ended up, as you know, passing the legislation in late 2010. It involved the nationalisation of these banks, some of them, and we were able to deal with it from there, plus deal with the Anglo, Irish Nationwide situation and with the IBRC situation.

**Chairman:** Final question.

**Deputy Kieran O'Donnell:** Final question. What controls were in place, in your period as Minister for Finance and Taoiseach, to look at the level of the balance sheets of the Irish banks and the exposure of the balance sheets of the Irish banks, relative to the Irish economy?

**Mr. Brian Cowen:** We were aware of the expansion of the balance sheets and the financial stability reports were referring, as I've said, to lending growth. That lending growth was, in the main, going towards economic growth. When lending growth stopped, economic growth stopped and that was, sort of, the impact, if you like ... the real impact of the financial crisis was that it cut off access to capital at a time when the economy was growing at a strong rate. But there was also ... a re-balancing would have to be done because there was a level of activity going on, construction-related activity, that wasn't sustainable. The mistake in the analysis was that that could be ... that could resolve itself through this soft landing idea, rather than the hard landing that came when the financial crisis hit. And that's, you know ... I think Regling and Watson set out in good measure a lot of the issues that were the causal factors of that.

**Deputy Kieran O'Donnell:** Thank you.

**Chairman:** I just want to deal with one or two matters there before I bring Deputy Phelan, who's next. One comes back to ... I think in your earlier comment this morning, Mr. Cowen,

in your opening statement to the committee ... or, sorry in his opening statement to the committee, Mr. Liam Kelleher, former director general of the Construction Industry Federation states, "Representation and lobbying has always been a key element of the CIF's activity". If I could ask you what impact, if any, on the decisions taken by the Government would you attribute to lobbying activities of such organisations and how did you, as Taoiseach, ensure that the decisions taken by you were not unduly influenced by special interest groups?

**Mr. Brian Cowen:** I think during my time as Taoiseach, in my Administration, unfortunately, we were in a period of economic retrenchment, so it wasn't a question of providing expansive opportunities for industry to lobby. It was about identifying those things that were important, that needed to be ... continue to need investment and the fact that we continued with 5% GNP as part of our capital budget was important. That was something that the CIF, for example, would be interested in, as the Construction Industry Federation, in terms of the jobs that that could sustain and the replacement it was making, in terms of a public capital programme, as against a diminished private housing sector. So, in other words, there are some times when people put forward proposals. If they're consonant with Government policy objectives, you use that expertise to the benefit of the country and, hopefully, come up with policies that are responsive and which have ... are effective and bring a public good, as well as, obviously, being welcomed by sectoral interests who have a legitimate interest in some aspects of what you're doing.

**Chairman:** Thank you, Mr. Cowen. Why were the NTMA outside the room on the night of the guarantee and only consulted for ... on one single aspect of the guarantee, which was the relationship of the guarantee to the subsidiaries of Irish banks that were held overseas and so forth?

**Mr. Brian Cowen:** I think Mr. Cardiff has dealt with this as well. I mean, basically, I wasn't in control of who was outside the room, but the point was-----

**Chairman:** Did you know the NTMA were outside the room, Mr. Cowen?

**Mr. Brian Cowen:** But the point I was going to make, Chairman, is that the NTMA ... the view of the NTMA was expressed by Mr. Cardiff in the room. Physically, the chief executive and the deputy chief executive were out ... over in America. He had been trying to contact the gentleman in question and he arrived ... you know, he got there as quickly as he could, he got there at half nine, or whenever it was. Mr. Cardiff has explained the situation from then on as to why he didn't feel it was necessary for anyone else to come into the room at that point. And when there was a query or a clarification sought, the now chief executive of NAMA was available to give clarification.

**Chairman:** Okay.

**Mr. Brian Cowen:** But it wasn't a question of-----

**Chairman:** I'd like you to add to Mr. Cardiff's testimony, please Mr. Cowen, if you don't mind, as to your understanding of the purpose of the NTMA being in Government Buildings that night. Did you know that they were there and for what purpose-----

**Mr. Brian Cowen:** Well I was-----

**Chairman:** -----were they called over for?



**Mr. Brian Cowen:** Well, I found it unfortunate that the two main men were away, out of the country, they were doing NTMA business. The NTMA position had been reflected in what Mr. Cardiff had to say, it wasn't a question they were being ignored or that their position wasn't being articulated, it was.

**Chairman:** Did you ... but ... Mr. McDonagh was called in along with another official that night from the NTMA, they were outside the door for several hours. Do you know for what purpose, because Mr. McDonagh was not able to explain to us as to what purpose he was over there for, in his testimony-----

**Mr. Brian Cowen:** Well I didn't know ... I didn't know either, I didn't even know maybe that he ... who was outside ... who was out in the next room. I knew that there were people out there.

**Chairman:** Did ... were you-----

**Mr. Brian Cowen:** But the NTMA-----

**Chairman:** -----aware that the NTMA were outside the door no?

**Mr. Brian Cowen:** Sorry?

**Chairman:** Were you aware that the NTMA were outside the door?

**Mr. Brian Cowen:** I wouldn't have known who was outside the door until whoever came in the door. You know what I mean? But-----

**Chairman:** Why didn't-----

**Mr. Brian Cowen:** -----the NTMA ... the NTMA senior people, the most senior people were away on that night, but their position, the fact that they weren't physically there doesn't mean their position wasn't being articulated.

**Chairman:** Okay. Well you've established that you were familiar that the senior official, Mr. Somers, and another official were away overseas. We'll be dealing with Mr. Somers tomorrow when he comes in. But, NTMA officials were sought on the evening of the guarantee, the biggest financial decision made in the history of this State, and they were outside the door. Is your testimony to the inquiry this evening that you didn't know that they were actually outside the door?

**Mr. Brian Cowen:** Well, I didn't know who was outside the door. What I'm saying to you is that, when Mr. ... when the gentlemen was ... came to the Department of the Taoiseach at 9.30 p.m., he was in an outside room. He had been asked to be there, he was phoned or whatever or e-mailed or texted by Mr. Cardiff. I hadn't asked for, "Get me the NTMA." The official had got him, he knew the other two gentlemen were away. But he was articulating, you know, there wasn't a question that the NTMA position wasn't known in the room. It was.

**Chairman:** If the NTMA's position was known in the room and the officials were called in later in the night to talk about the extended matters of the guarantee, what was the purpose of calling Mr. McDonagh and his associate that evening?

**Mr. Brian Cowen:** Mr. Cardiff wanted people there from the NTMA to be there if they were required or if they were needed or if there was a ... an extra expertise was required and that

particular issue, on the subsidiaries, obviously, he felt he was the best guy to talk to about that.

**Chairman:** Did he ... who ... did the NTMA, either through Mr. McDonagh or Mr. Somers or any other official, express to you or were you aware of any view that the NTMA may have had with regard to the moulding, the design and the shape of the guarantee?

**Mr. Brian Cowen:** I'm sorry, that final part you were saying?

**Chairman:** Like ... what I'm asking you is, were you aware at any time either in the course of the evening or prior to calling the meeting that evening, as to any expression or view that the NTMA may have had with regard to the shape, the design and the inclusivity of the guarantee?

**Mr. Brian Cowen:** No, the NTMA as you know were ... had employed Merrill Lynch, and they were more of the view of a nationalisation.

**Chairman:** Of which?

**Mr. Brian Cowen:** A nationalisation.

**Chairman:** Of all banks or of some banks?

**Mr. Brian Cowen:** No, of the Anglo bank and the guarantee-----

**Chairman:** Okay.

**Mr. Brian Cowen:** -----thereafter.

**Chairman:** So can I just settle this so. We have the Minister for Finance inside in the room, pro-nationalisation of Anglo bank, we have Kevin Cardiff inside the room looking for the nationalisation of Anglo Irish Bank. We have yourself and Mr. Hurley of an opposed view and we have the NTMA outside the room, who were also of a pro-nationalisation of Anglo Irish Bank. Am I correct in that?

**Mr. Brian Cowen:** Mr. Doyle, the Secretary General of the Department of Finance, who came to the view that-----

**Chairman:** Okay.

**Mr. Brian Cowen:** -----an overall guarantee was required.

**Chairman:** Okay. Well, is your testimony this evening that the three parties now that are on record that are in favour of nationalising Anglo are Mr. Cardiff, Mr. Lenihan and the NTMA?

**Mr. Brian Cowen:** That would be my position.

**Chairman:** Okay, thank you.

**Mr. Brian Cowen:** That was their preference.

**Chairman:** Okay. Next questioner, John Paul Phelan.

**Deputy John Paul Phelan:** Thank you Chairman. Good afternoon, Mr. Cowen. Briefly at the start, in relation to the G7 phone call, it's been asked ... referred to already a lot, but I'm just interested to know, did you speak with any of the other European Heads of Government who would have been involved in some of those discussions at least, Mrs. Merkel, Mr. Sarkozy, with

regard to the veto issue, as discussed earlier?

**Mr. Brian Cowen:** No.

**Deputy John Paul Phelan:** Why did you not?

**Mr. Brian Cowen:** Because ... because it was clear that the IMF weren't in agreement with the bondholder issue and the main contributors were on ... from our intelligence, were on the one side of it. There was no point - it was going to happen.

**Deputy John Paul Phelan:** Can I turn now to the issue of the legislation surrounding financial regulation? There was an initial proposal in 2005 for a modernisation and simplification of the legislation which was announced in 2006 to bring all the legislation for different ... the different financial industries within the same regulatory framework. Can you outline for the inquiry what happened to these efforts during your tenure as Taoiseach?

**Mr. Brian Cowen:** I think, clearly, other legislative priorities took precedence. This was sort of a consolidation idea. It was about consolidating financial services legislation, put it all under the one Act, if you like, and it would be good for the purposes of presenting Ireland as a good location for financial services etc. But there were far more ... you know, so you we had that in place in various legislative framework and this was all about bringing it all together and reviewing it and all the rest. And we obviously ... other legislative priorities took over pretty quickly.

**Deputy John Paul Phelan:** Can I ask you, in relation to the evidence that you've given today and, indeed, the last day that you were here, you stated time and again that you relied on advice from a number of sources, particularly the Central Bank and the regulator. Post-nationalisation, why didn't you ask for resignations, be it from the regulator, from the Central Bank, senior executives within the banks themselves, when the true extent or, at least, a partial picture of the true extent of the losses became known?

**Mr. Brian Cowen:** Well the full extent became known over a period of time and there were a lot of management and board changes during that time. You know, so ... I mean, the Minister for Finance had made it clear about a number of things regarding bonus performance being stopped and salary caps and a whole lot of things like that. There were other situations where people retired out of their jobs, indeed, before the nationalisation was completed. So post-nationalisation we ... you know, the Minister appointed public interest directors. He had a constant interaction with the banking industry and he made it clear what was expected both in terms of codes of conduct in terms of mortgage arrears, in terms of how customers were to be dealt with. There was a whole range of areas where changes took place at the instigation of the Government.

**Deputy John Paul Phelan:** I understand that but, I suppose, the point I'm getting at is in the interests of accountability was there not an opportunity then for the Government ... maybe not you directly, but the Minister for Finance, acting in consort with yourself, to say, you know, these people whose advice we relied upon in the case of the regulator and the Central Bank, they've made errors, they've missed certain things that they should have spotted, that there should be resignations?

**Mr. Brian Cowen:** Well, I mean, I think, you know, there was accountability over that period and, you know, people will have their own views on that. My view on it was that we had sought to deal with a crisis situation to the very best of our ability. There were still structural

problems there. There were still changes that had to take place and changes did take place. And over that period if you look at the personnel in relation to particular banks, you'll see that there was significant changes.

**Deputy John Paul Phelan:** Did you see the evidence of Mr. Cardiff in ... where he referred to concerns that Minister Lenihan had about Cabinet confidentiality? And, if you did, what did you make of it or what ... were you aware of those concerns yourself at the time? I want to put the direct quote from Mr. Cardiff's witness statement to you. He said:

During his time as Minister for Finance he was concerned that sensitive information could not be trusted to the whole cabinet because – in his view – at least one of his colleagues would not treat the information received with discretion. This had consequences later.

Were you aware of those concerns?

**Mr. Brian Cowen:** Well, I wasn't aware of those specific concerns or that there was a particular individual that he had ... he was mentioning to Mr. Cardiff. I don't know about that at all. I think it's the concern of every Taoiseach, or every Minister of Finance of any Cabinet that confidentiality be respected.. It's absolutely critical for the cohesion of any Cabinet to work properly. And again there's sometimes, unfortunately, people who - I'm not saying there were in my Cabinet - but from occasions of times when people seemed to be unable to understand why that principle is so important. It's not for the purpose of being secretive. It's for ... it's the importance of having free expression of opinion and acting as a collective authority coming to a decision. And once that decision is making back that, back that decision. And if you can't back the decision, do the honourable thing and step out of the collective authority that makes the decision.

**Deputy John Paul Phelan:** Did you-----

**Mr. Brian Cowen:** That's a principle to which I have always subscribed.

**Deputy John Paul Phelan:** Did you have any such specific concerns yourself-----

**Mr. Brian Cowen:** I think every Taoiseach-----

**Deputy John Paul Phelan:** -----about members of the Cabinet?

**Mr. Brian Cowen:** As I say every Taoiseach ... I think every Taoiseach will have concerns about some of these things. But you ... some things, you know, you have to be realistic in the world we live in too. But, on issues as important and as sensitive as this, you know, you're entitled to expect that your Ministers act professionally and ethically, and to act ethically in that case means not being involved in discussions of issues that are still before Cabinet. Once they're decided by Cabinet, you have an obligation to get out there and defend those decisions and inform your public as to why you're making the decisions you're making.

**Deputy John Paul Phelan:** Do you believe that the members of the Cabinet at the time did all act in accordance to what you've just said?

**Mr. Brian Cowen:** I think they did; I've no evidence to suggest to the contrary.

**Deputy John Paul Phelan:** Okay. Can I ask you now in relation to the decision of the Government to appoint Peter Bacon to recommend options for property and developers' loans

in that crisis period before the establishment of NAMA? I remember questioning him about it myself when he gave evidence, when I asked him was he procured under the normal procurement process that would apply to such appointments. He said that he wasn't because it was an emergency situation. He also said in his evidence that he was a director of Ballymore Homes for a period of years, I think which ended, I might stand to be corrected, in the summer of 2008 - Ballymore Properties I should say. Considering that that was one of the largest property development companies in the country at the time, is there not potential, at least, for a conflict of interest, that he was now in the role of advising the Government on options in relation to the establishment of NAMA?

**Mr. Brian Cowen:** No, I think you believe in the people's professional integrity. I mean, you appoint people in this situation in an emergency ... Mr. Bacon had, apart from any private directorships he currently had when he left the public service, or whatever, he had a long record of involvement in these sort of issues and an expertise that might be helpful. You know, I think you have to believe in, you've got to ... you can't allow all the time the suggestion to emanate that because you had an involvement in X disqualifies you from dealing with something in that general area. I mean, the quality ... the reporting that he did was very good work, very good professional work. And in my opinion, I have no reason to question the man's professional integrity.

**Deputy John Paul Phelan:** I'm not really asking you question his professional integrity, but I'm saying was it-----

**Mr. Brian Cowen:** You're suggesting there may be a conflict; I don't see why there would be a conflict-----

**Deputy John Paul Phelan:** A potential for a perception of conflict of interest.

**Mr. Brian Cowen:** Well, I think we have to deal with perception-----

**Deputy John Paul Phelan:** We have to deal with perception.

**Mr. Brian Cowen:** -----you know, there's perception and there's reality. And, of course, you have ... everything has to be seen to be above board, no one suggests otherwise. But what I'm saying to you is when you employ someone to do an important job like that, you are relying on his professional integrity ... and you can rely on his professional, a person of that ... on their professional integrity on the basis that they act ethically.

**Chairman:** All right, Deputy, we have to move on. Final question if you've anything else. Okay, thank you very much. All right, the next questioner is Deputy Michael McGrath.

**Deputy Michael McGrath:** Thank you very much, Chair. Mr. Cowen, you say in your witness statement that the Central Bank Reform Act of 2010 has provided "a new and effective structure and brought further clarity to the roles and accountability amongst the regulatory and supervisory institutions of the State". So can I ask, in your opinion, to what extent did the banking crisis influence the changes made to the regulatory regime in the 2010 reform Act, which addressed the division of responsibility for macro-level supervision and micro-level supervision between the Central Bank and IFSRA which was set out in 2003 originally?

**Mr. Brian Cowen:** Yes, well, I think that Professor Honohan in his report made some observations in relation to that structure and we simply have to learn and try and work through the issues. I think that ... whilst I don't question for a moment that the people who were work-

ing that new structure were doing so to the best of their ability and avoiding turf wars and all this sort of stuff, I think it's important that, as a result of what happened, we had a much more simplified structure and that no indication could be given that there was a problem with ... at what stage does who get involved in what and all this sort of stuff. So it was a question really of looking again at best practice worldwide and, as I say, it was based on the Canadian model.

**Deputy Michael McGrath:** Okay. You referred earlier, Mr. Cowen, to the issue of corporation tax and efforts, perhaps, by others to put that issue on the table. Can you tell us, specifically, was this requested as part of the bailout negotiations ... that Ireland's 12.5% corporation tax rate would be changed ... or prior to then? Can you clarify exactly what happened on that issue?

**Mr. Brian Cowen:** Well, the Minister for Finance was concerned that there would be efforts made in that regard. He was also concerned about some comments that were being made at the time, at various meetings he was attending, as to what conditionality people had in mind - some of it official, some of it unofficial. So he was making it very clear that that was not up for ... that was a cornerstone of our industrial policy that we did not want to touch and would not touch.

**Deputy Michael McGrath:** But was it raised by others?

**Mr. Brian Cowen:** It was. He informed me it was raised by some, yes.

**Deputy Michael McGrath:** At what level - ministerial level, official level?

**Mr. Brian Cowen:** Ministerial. In terms of contribution, at ministerial level, yes.

**Deputy Michael McGrath:** So that would be ECOFIN or Eurogroup? And that would have been prior to the negotiations?

**Mr. Brian Cowen:** Yes.

**Deputy Michael McGrath:** Okay. Can I just ask that Department of Finance, Vol. 3, page 55, would be put on the screen. And the point I'm raising, Mr. Cowen, is-----

**Mr. Brian Cowen:** Sorry, Deputy, page?

**Deputy Michael McGrath:** Page 55 of-----

**Mr. Brian Cowen:** Of Vol. 5?

**Deputy Michael McGrath:** Of Department of Finance, Vol. 3.

**Mr. Brian Cowen:** Yes.

**Deputy Michael McGrath:** It should be coming up on screen. And it's giving an overview, really, of the cost of recapitalising the banks and if you look at Anglo Irish Bank, for example, the total of €29.3 billion, this was as of January 2011, and it goes through the chronology there - €4 billion in June 2009, €8.3 billion in the prom note in March 2010, increasing then to €10.3 billion two months later in May 2010, then in June, a further €8.6 billion in the promissory note, then in August another €6.4 billion. So is it the case-----

**Mr. Brian Cowen:** It hasn't come up yet, you're saying ... I have it now.

**Deputy Michael McGrath:** That's okay. It's there, yes. The top part of that table, it's

just going through the chronology and I'm not asking any question of detail. My question is: in terms of the factors that led to the bailout in November 2010, is it the case that the extent to which it took so long and there were so many changes in the overall bill for recapitalising the banks, and the difficulty that there was in finding the bottom of that black hole, that that really sapped confidence among the markets towards Ireland ... that we couldn't get a handle on the extent of the problems in the banks, the picture kept on changing?

**Mr. Brian Cowen:** Well, I think there's no doubt that whilst the NAMA process was thorough, it was time consuming and the longer it took to get to the bottom of all this, the more difficult it was made for us, as you say, to be able to put out there a consistent message. But part of our problem too was that there wasn't a market out there and, therefore, the valuation issue was becoming a moving feast as far as I could see. It didn't make it any easier. It was time consuming anyway but that was another complication and complexity that, again, by definition, didn't feed confidence into the system. While I think there was a recognition that Ireland was being genuinely ... rather than trying to hide the issues inside in bank balance sheets, we were trying to extricate out of bank balance sheets what the situation was. And ultimately, by the time we set up NAMA, got that work in place, had the statements in banking, then deal with the Greek situation, the impact that had on our own bond market, I mean, there was an awful lot happening and an awful lot going against us so that by the time we did finally get to where we wanted to get to, we were ... we were ... again our room for manoeuvre was restricted again so that our ... to be honest with you, our honesty in getting it out there was militating against us in terms of improving sentiment.

**Deputy Michael McGrath:** When was the idea of preparing a four-year national recovery plan first mooted in Government?

**Mr. Brian Cowen:** From the time, once we saw that there was a move on bonds again, in the autumn of 2010, we had a budget coming up that was going to be difficult anyway, and we needed to put that into a context of a longer-term plan-----

**Deputy Michael McGrath:** So around September?

**Mr. Brian Cowen:** August, September.

**Deputy Michael McGrath:** August, September.

**Mr. Brian Cowen:** September, okay.

**Deputy Michael McGrath:** Okay. When the programme was negotiated in November, was there any particular element of it that you were very dissatisfied with? Is there any outcome that you wanted which you didn't get or was there any element of the plan that you didn't want to see in the plan?

**Mr. Brian Cowen:** Well I was glad that we were able to get ... first of all no ... no comment or no problem in relation to the corporation tax issue. But as I say, it wasn't a question of what did we get from Europe, it was a question of Europe coming in line with where we wanted to go as to what was manageable - it was going to be very difficult politically to do it anyway - but what was manageable, and that we had an upfront adjustment of €6,000 million that we felt we could do at a push, but it wasn't going to make it any easier for us, but we could do it and we did do it. And we discharged that responsibility before leaving office.

**Deputy Michael McGrath:** Okay, you say you were satisfied that corporation tax wasn't

included but my question was, was there anything that you weren't satisfied with in the programme? What was the most disappointing aspect of it for you? Was it the interest rate, was it any individual element of that programme which was agreed?

**Mr. Brian Cowen:** I understood that the interest ... I was happy that the interest rate issue wasn't being closed off to us. We'd have liked to have got it lower at the initial stages but it was clear, as the first entrants into the programme, I understood what the thinking on the other side was. There were structural reforms that were difficult, they were all very difficult ... you know there was enough in it to be concerning without worrying about what wasn't in it. There was a lot in it and it was going to be difficult politically to deliver, one way or the other.

**Deputy Michael McGrath:** Sure. And then on 9 March 2011, you handed over the reins to the current Taoiseach, Enda Kenny. Would you have had a hand-over meeting with the incoming Taoiseach and what message would you have conveyed to him as to the key issues that you saw at that stage?

**Mr. Brian Cowen:** No, there wasn't a hand-over meeting, that didn't take place. I did ... I recall saying to the Taoiseach on my last day in the Dáil when he ... when we shook hands and I said that if he were the next Taoiseach, which was looking likely, that I wished him well and that we needed to complete the job that we'd begun. And I was under no illusions that it wasn't likely that we were going to be back in power. But, I certainly hoped that there would be a consistent follow-through with the policies that I believed were necessary and this Government has, in the main, obviously continued that path to public finances-----

**Deputy Michael McGrath:** So no one-to-one meeting as such, where he talks through the issues in your in-tray and-----

**Mr. Brian Cowen:** There wasn't. There was no request for that.

**Deputy Michael McGrath:** Mr. Cowen, on 31 March 2010, in a Dáil exchange, Deputy Gilmore, as leader of the Labour Party during Leaders' Questions, questioned the motivation for ... for guaranteeing Anglo Irish Bank at the end of September 2008 and he said, on the record that day:

I believe that the Taoiseach and the Government made that decision in September 2008 not in the best economic interest of the nation but in the best personal interests of those vested interests who I believe the Government was trying to protect on that occasion ... and whose property interests and prosperity were bound up with the fortunes of Anglo Irish Bank.

And he accused you of "economic treason". How do you reflect on that now?

**Mr. Brian Cowen:** Well, I think it is well known how I reflected on it at the time and it remains my position that that is not correct, that is not true and I would like to see it stricken from the record in the interests of the public service I have sought to give over a long period of years.

**Deputy Michael McGrath:** Have you requested that?

**Mr. Brian Cowen:** I think it's a matter for those who make those comments to await, I suppose, the outcome of this committee. He has seen other reports that already come in commissions of investigation. There is no grounds for that at all and in fairness to our reports that've already confirmed that, that there is no evidence whatever in that.



**Deputy Michael McGrath:** Thank you.

**Chairman:** Thank you, I'm going to start moving things to wrapping up, Mr. Cowen, after which then I'll invite the two leads from today. If I can just clear up with you just one question and then deal with two matters. Mr. Cowen, if I could ask you in regard to, it's in your own opening statement, I think it's in paragraph 301 of your statement you say, "Broadening the tax base, creating new sources of revenue and cutting back Government spending were essential features of a budgetary policy." And then over the years leading up to the crisis - this is the question I'm putting to you, so over the years leading up to the crisis, a high and increasing reliance was placed upon transactional tax revenue, such as stamp duty. To what extent do you attribute this to the problem that the Government faced in coming into the years in which you had to restrict Government expenditure and broaden the tax base?

**Mr. Brian Cowen:** It was a serious problem because the construction industry came to a halt, the market collapsed and the idea of a phased reduction of output, which had been budgeted for, had to be revisited because of the fact that output went much lower than what was anticipated. So whilst we were accommodating a reduction in output in our budgetary strategy, we certainly weren't budgeting for what emerged in the construction sector as a result of the financial crisis.

**Chairman:** I'm going to read some figures to you during that period, and these are all figures relating to 2002-2006. The first graph I have up there, it's at the top of the page, and what you'll see is capital gains tax as a percentage of total revenue, this is the overall revenue figure. And in or around 2002 it makes up 2% of the overall figure, going up to 6% of the overall revenue in the period of 2002-2006, an increase by my estimation of about 200%-----

**Mr. Brian Cowen:** From a very low base.

**Chairman:** Yes. But we move on then, to the next one, and we go inclusive. The next one up is stamp duty as a percentage of total revenue, from 2002-2006 that moves from 4% up to 8% of total revenue. And then on to the next diagram which is the total level of cyclical taxes as a percentage of revenue moving from 2002 to 2006. In or around 2002 it's just in around maybe 22.5% and coming into 30% of taxes by 2006. Looking at those figures now, and just given your earlier comment there, would you give any consideration, Mr. Cowen, in retrospect as to what changes would have or could have been made in the earlier years to ensure that the Government was not so reliant on transactionary or transitional tax revenues?

**Mr. Brian Cowen:** Well to be less reliant on transactional tax revenues we would have had to increase income tax, had more people paying tax at perhaps higher rates. The purpose of the personal taxation policies was to maximise employment opportunity for people and by keeping personal taxes low, maximise employment. I think we had got to a very good position on employment, an historically high position. But looking back now, I think Regling and Watson have outlined a number of issues that need to be addressed for the future. And as I say there was no budgetary strategy, however prudent, that could have avoided a major adjustment, given the scale of the crash that happened.

**Chairman:** Would cyclical taxes almost approaching a third of total revenue be seen as an indicator that there may be something happening in the economy that requires cooling down, re-examination and other measures that would have to be addressed, regardless of what's happening inside in the banks, that this could be an issue?

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**Mr. Brian Cowen:** Yes. Well, there was a rebalancing that we were hoping to take place on the basis of the soft landing analysis. That clearly, over the period of years following, be an adjustment of less contribution by those taxes which would involve more contribution by others. And that would involve probably, coming back to income tax rates or income tax bands, etc. So the readjustment would have had to take place. I'm not suggesting otherwise. What unfortunately was that we were very vulnerable at the time it did happen.

**Chairman:** Do those figures and that brings me to the final question on this matter ... do those figures support or question the soft landing theory?

**Mr. Brian Cowen:** Well, they don't ... they don't do either in relation ... Or what it says about the soft landing theory is it says it's a very hard landing theory ... very hard landing obviously, given what happened. But the analysis up to then which we went into in some detail last week, the assessment was both domestically and internationally, the preponderance of evidence, not all of the evidence, but the preponderance of evidence was that it would be a softer landing.

**Chairman:** Okay. Just two other matters there, Mr. Cowen, so. When did David Doyle indicate to you that he supported the all-inclusive guarantee? Was it in the meeting or were you aware of a view that he may have had before you actually went to Government Buildings that night?

**Mr. Brian Cowen:** No he listened to the arguments the same as the rest of us and came to that conclusion.

**Chairman:** Was there any prior discussion between yourself and Mr. Doyle as to the shape and design of the guarantee before Government Buildings that night?

**Mr. Brian Cowen:** No.

**Chairman:** Okay.

**Mr. Brian Cowen:** Other than ... other than attending previous meetings that he attended and I attended when there was a discussion generally about things.

**Chairman:** On that evening or at other times?

**Mr. Brian Cowen:** No. No. There are documented meetings earlier about the Merrill Lynch thing and all that stuff.

**Chairman:** Earlier when? Earlier hours or earlier days?

**Mr. Brian Cowen:** Earlier days.

**Chairman:** Okay. So you were aware that Mr. Doyle had a shaped opinion or a growing opinion in his head as to the design of the guarantee and that it would be all-inclusive? And that would be inclusive?

**Mr. Brian Cowen:** No, I didn't. No, I didn't, no.

**Chairman:** That's what I'm trying to clarify.

**Mr. Brian Cowen:** No, sorry, Chairman, I didn't just to clarify. I'm saying that there were previous meetings. I had meetings during the course of that week where the papers that were produced by Merrill Lynch were discussed. It's on record and there was a huge number of

people there. I'm just saying he attended meetings I attended but I didn't know what his view would be, no more than he knew what my view would be until we heard what we were hearing on the night of the guarantee.

**Chairman:** And at any of those earlier meetings, had you expressed a preference for an all-inclusive guarantee that would be inclusive of Anglo?

**Mr. Brian Cowen:** I had not. I had indicated that work should continue on all these options.

**Chairman:** All right, last area then. Whose decision was it to bring the NTMA over to Government Buildings that night? Who said, "Make the telephone call and get them over here?"

**Mr. Brian Cowen:** Kevin Cardiff was the contact man who asked who had been looking for Mr. McDonagh to come over because Mr. McDonagh had to come over because the other two gentlemen were away.

**Chairman:** So it was Mr. Cardiff's decision to bring them in or to call them over. Is that what you're saying?

**Mr. Brian Cowen:** Yes the Department of Finance were arranging for people to come to this meeting. The meeting was being fixed 6.30 p.m. or whatever and people were arranging for to have people available who would have the technical expertise in the event of whatever decisions were going to be made, if any decisions were going to be made.

**Chairman:** When Mr. Cardiff was before the inquiry the question was actually put to him as to what was the purpose, and I think it was Senator D'Arcy actually at the time when he raised it, were the questions if he could afford some insight into why people in the room were asked the questions and why Brendan McDonagh and the NTMA were in the room next door and that question was never put to them. Mr. Cardiff then says:

Well, I can ... the reason 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 of where we were around the room. As to whether, as to why Brendan was outside, well Brendan was outside the room because the people in the room ... the senior people in the room, didn't chose to bring him in.

Who were the senior people in the room?

**Mr. Brian Cowen:** Well I was the senior person in the room but I didn't not choose to bring him in. I just didn't ... you know, I wasn't saying, "Keep someone out here." That didn't happen. I was simply making the decisions based on who was in the room. I didn't determine ... I knew the two top men were away. That's all I knew. Now the fact that there was someone else from the NTMA around for to help with any technical expertise or advice, that was fine if it that was the case. But I didn't ... I wasn't aware there was five people outside the room ... there's three from a bank and two from NTMA and one from Department of Finance. I wasn't ... I was concentrating on chairing the meeting I was at.

**Chairman:** In giving us this testimony this afternoon, Mr. Cowen, do you have a view on whether you should have known that the NTMA were outside the room and how do you view that now?

**Mr. Brian Cowen:** Well the NTMA view was being expressed in the room and the two main

guys-----

**Chairman:** By?

**Mr. Brian Cowen:** By Kevin Cardiff, and the two main guys who were involved in the NTMA were out of the country. So the fact that they weren't physically there didn't mean that their view wasn't being articulated.

**Chairman:** There's a difference between being cognisant of someone's view and a view being articulated. Somebody being in a room would be articulating and presenting a view, maybe being conscious of a view or something such as papers may be put into the room. So would you-----

**Mr. Brian Cowen:** I don't see what the distinction is. That ... Kevin Cardiff made clear what he believed the NTMA position was based on all the discussions they'd been having with the NTMA.

**Chairman:** Okay.

**Mr. Brian Cowen:** I'd liked to have seen the NTMA main people there but they weren't in the country.

**Chairman:** Was there a conference call made to Mr. Somers that evening?

**Mr. Brian Cowen:** No, not by me anyway.

**Chairman:** Okay. And so ... I'm still trying to come to the explanation as to why ... we know later on in the afternoon ... in that evening, the NTMA were used for one explicit very enclosed reasoning ... or reason, which was to examine the extension of the guarantee for ... the subsidiary of ... branches of Irish banks abroad and all the rest of it.

**Mr. Brian Cowen:** Yes. That wasn't a very big issue. I think what Mr. McDonagh said in his evidence was that the last ... it was late in the night and someone called him in about this particular issue. But it was ... that was sort of a clarification issue. It wasn't-----

**Chairman:** Okay, when was the last time you spoke-----

**Mr. Brian Cowen:** That was the only time I-----

**Chairman:** When was the last time you spoke to somebody from the NTMA before the guarantee that night? That you physically spoke with somebody?

**Mr. Brian Cowen:** At a meeting ... they were at ... they attended a meeting that I attended in the Sycamore Room a few days before that.

**Chairman:** Okay, and who was that?

**Mr. Brian Cowen:** It may have been Mr. Somers and Mr. Corrigan. It's ... there's a record of it in one of the documents.

**Chairman:** Okay, and you've ... earlier there, in your comments with regards to your discussions with Mr. Doyle, you said that the general discourse of the-----

**Mr. Brian Cowen:** We are talking about the same meeting again.

**Chairman:** Exactly, and that's the point I am making. In your earlier testimony just a few moments ago you said "Mr. Doyle was not cognisant of any view with regard Anglo being included in the shape and design of the guarantee". And I am assuming that you wouldn't have had that discussion with Mr. Somers or Mr. Corrigan that afternoon either because, by your own testimony-----

**Mr. Brian Cowen:** We were discussing options.

**Chairman:** Yes.

**Mr. Brian Cowen:** And we were discussing the Merrill Lynch options, I think, at that point. So, work was continuing on that and then when it came to the night of the guarantee then, Kevin Cardiff obtained from Merrill Lynch what was their final thing. Because I said to them, "There's a whole lot of options here. What's ... what are they saying at this point?"

**Chairman:** Okay, it's from Kevin Cardiff and the Merrill Lynch document that you became aware of the NTMA's view that they were not in favour of including Anglo in the guarantee, that they were in favour of a nationalisation-----

**Mr. Brian Cowen:** It was Kevin's ... Kevin communicated to me that he believed that the NTMA position was that they would favour a nationalisation.

**Chairman:** At no time the NTMA told you that?

**Mr. Brian Cowen:** No, not personally.

**Chairman:** Okay. And in your discussions two days beforehand, that wasn't on as an item of discussion either, no?

**Mr. Brian Cowen:** It was part of the discussion of the options but there was no decision made on the options.

**Chairman:** There's a bit of ... maybe it's myself now but there seems to be a bit of an incongruence here, Mr. Cowen. You say that two days earlier the discussion ... there was no discussion about Anglo and being nationalised. Are you now saying that there was a discussion about Anglo being nationalised two days beforehand?

**Mr. Brian Cowen:** Not Anglo specifically. What ... if you look at the Merrill Lynch document, as I know you have-----

**Chairman:** I'm not talking about the Merrill Lynch document, I'm talking about your-----

**Mr. Brian Cowen:** But that's what I'm ... that's what the meeting was about. That was what the meeting was about.

**Chairman:** Okay.

**Mr. Brian Cowen:** The meeting ... Merrill Lynch had been employed, they'd come up with this document. We had a meeting about it and they explained what these options were and there was work to continue on that and that's all recorded in a record of a meeting that took place.

**Chairman:** Can I come back and ask you the question: was Mr. Doyle at that meeting?

**Mr. Brian Cowen:** I believe he was.

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**Chairman:** And was Mr. Doyle aware that there was a position ... that Anglo would be nationalised or that could be considered at that meeting?

**Mr. Brian Cowen:** Yes, of course, because it was part of-----

**Chairman:** And was-----

**Mr. Brian Cowen:** -----the Merrill Lynch paper.

**Chairman:** And was there an expression or an opinion offered by Mr. Doyle at that time in favour or against it or just an observation?

**Mr. Brian Cowen:** I don't believe ... I don't believe he made an observation at that meeting, as far as I am aware. I don't believe he did because the purpose of it was to talk to Merrill Lynch about what it is they were producing.

**Chairman:** Even though it was an item on the agenda, it was being discussed, Mr. Doyle gave no opinion in that regard?

**Mr. Brian Cowen:** The item on the agenda was Merrill Lynch presenting their paper to a wider audience of people, including the people on top.

**Chairman:** Okay, so I'll begin where I end on this. Why were the NTMA called that night and why were they outside the room?

**Mr. Brian Cowen:** They were called that night, as I understand it, by Mr. Cardiff to be available if required and it was the view then that they weren't required since their position was being articulated in the room anyway. That's the best I can ... answer I can give you, based on what Mr. Cardiff has had to say.

**Chairman:** And when did you first become aware that the NTMA were outside the room?

**Mr. Brian Cowen:** That there was a person from the NTMA outside the room?

**Chairman:** There were two persons-----

**Mr. Brian Cowen:** Two persons ... very late in the day.

**Chairman:** Okay, and when you found that out did ... how far evolved was the guarantee at that stage? Was it finalised or was it still under discussion?

**Mr. Brian Cowen:** Yes, we had probably come ... yes, we had come to a decision at that point and, as I say, their view had been expressed on their behalf by Mr. Cardiff.

**Chairman:** So you discovered the NTMA are outside the room, you have made a decision as to the shape of the guarantee-----

**Mr. Brian Cowen:** And I know what their position is.

**Chairman:** And so ... but you've just discovered now that the NTMA are outside the room?

**Mr. Brian Cowen:** Yes.

**Chairman:** And you've been discussing all night-----

**Mr. Brian Cowen:** Not the two main people, but two other people.

**Chairman:** No, but they're, like, two significant people in the NTMA.

**Mr. Brian Cowen:** Well, they weren't the two senior ... they weren't ... I don't think I'd met Brendan before that.

**Chairman:** Okay. But you discovered that there's two NTMA people outside the room, you haven't made a conference call to Mr. Somers and Mr. Corrigan that evening, you have shaped the guarantee as to how it would be presented in the morning. At any time during that period, did you say, "Well, maybe we just need to get their opinion on the design of it?", not the extended matters that were discussed, but on the overall shape of it - that never entered your mind?

**Mr. Brian Cowen:** No, the opinion ... no. The opinion that I got from ... Mr. Cardiff had outlined what the NTMA position was. As regards the scope of it, that was decided in the room by people like the Governor of the Central Bank, who had responsibility for financial stability.

**Chairman:** Was the Governor aware that the NTMA were outside the room?

**Mr. Brian Cowen:** The Governor had been in touch with the NTMA during the previous days in any event.

**Chairman:** Okay, all right.

**Mr. Brian Cowen:** A lot of that interaction had been going on. It wasn't a question of they being out of the loop and remaining out of the loop. They were in the loop, but not physically present that night because their senior personnel were away.

**Chairman:** All right, thank you. Deputy?

**Senator Susan O'Keeffe:** Chair, is it possible to just ask for one clarification?

**Chairman:** Yes, go on.

**Senator Susan O'Keeffe:** To ask whether there were ... was there anybody else at all outside the room on that night? We know about the banks-----

**Chairman:** Other than the banks and the NTMA.

**Senator Susan O'Keeffe:** Other than the bankers and the NTMA, just in the interests of clarity?

**Chairman:** Okay, all right.

**Mr. Brian Cowen:** I don't believe there would have been. I don't think it's-----

**Chairman:** Okay, all right. Deputy Eoghan Murphy.

**Deputy Eoghan Murphy:** Thank you, Chairman. Thank you, Mr. Cowen. Mr. Cowen, just about five minutes ago when speaking to the Chairman, and he was going through some graphs on the economic ... the economy, I suppose. No, no, it's okay. You said there was no budgetary strategy, no matter how prudent, that could have avoided the scale of the adjustment needed. Is that correct?

**Mr. Brian Cowen:** There was no budgetary strategy that was taking account of the fact that

there was going to be a severe financial crisis in Ireland in 2008.

**Deputy Eoghan Murphy:** But did an imprudent budgetary strategy contribute to the scale of adjustment needed?

**Mr. Brian Cowen:** Well, that's a view that people can express. I've explained the rationale behind the policy we were pursuing, and I acknowledge that had we spent less, and I think I acknowledged in the opening statement today that had there been less spending then the level of vulnerability would have been less. But that would have come at a cost of higher unemployment, and less growth. So-----

**Deputy Eoghan Murphy:** I'm just trying to clarify that then. The budgets that were decided did contribute to the scale of the adjustment needed?

**Mr. Brian Cowen:** The budgets ... there's no doubt that when the crisis hit, Deputy, that that had a huge effect on us and we had to readjust. And I am acknowledging freely, without being party political about it, just acknowledging a fact, that if we were spending less, if there was a less spend in our budgets before, in my budgets before that, clearly the level of adjustment would be less, but it would still have been significant. But it would have come at a price of higher unemployment during that period and less growth. That's just what I'm saying.

**Deputy Eoghan Murphy:** And the move from pro-cyclical taxation from 12% to 30% from 2000 to 2006, was that prudent?

**Mr. Brian Cowen:** Well clearly it was a level of growth that wasn't sustainable and would have to be adjusted, and on the basis of the soft landing theory, would be adjusted over time. So clearly I wasn't saying that we were going to have a sustainable capital taxes of 30% of total tax take - clearly not. But you would get back down to maybe 12% of tax take, and 13%, and that would mean having to look at other budgetary possibilities to make up the shortfall, or else adjust your spending accordingly.

**Deputy Eoghan Murphy:** Just in relation to mistakes that were made in managing the crisis, and you said in paragraph 160 of your opening statement: "The slow process in transferring loans to NAMA in tranches played a role in undermining confidence in the banking system and the sovereign in general." So can we imply from that that there was a design fault within NAMA that led to the bailout?

**Mr. Brian Cowen:** I don't describe it as a design fault, in fairness. It was ... I mean, NAMA was set up to do a job. It was set up in a highly politicised atmosphere. All sorts of mal-intentions was being ascribed to it for the setting up of it. It has done its job well in terms of the mandate that it has. People can have their concerns about it as to how it operates, etc., etc., but, you know ... so it did it's job, and it was a job that needed to be done, and is being done. Now, it took some time, it took a considerable amount of time. One of the reasons it took some time was that the knowledge, either the knowledge or the denial, in the banks, was such that what emerged ... no one in the banks was suggesting that when you do this process you're going to end up with a haircut of X, or whatever it was, none at all, it's not that ... it's not like that at all. But when they actually went in and did it, that's ... and that took time, but I agree that it was a ... that was a, if you like ... if you like, a disadvantage of that process, was the time it took. But, it wasn't helped by lack of co-operation either, or lack of knowledge-----

**Deputy Eoghan Murphy:** Sorry, that's what I was going to ask you about ... you said knowledge denial, but co-operation. Was co-operation satisfactory for that process? Did that



slow down the process?

**Mr. Brian Cowen:** I think at the start it wasn't, and NAMA people will say that to you themselves, but it improved when they realised what the real world was going to be.

**Deputy Eoghan Murphy:** And, Kevin Cardiff, when he was here, suggested that making the 30% target, the haircut target, public, might have been a mistake. Would you agree it might have been a mistake, or was that a mistake?

**Mr. Brian Cowen:** Well, you know, I would give weight to his judgment on that matter. I mean, he ... if he feels that if we were to do it again he wouldn't do it that way, fair enough, that's a lesson to be learned. But I also understand why he had to do it, to be accountable to the House as to what was the ... give us a ballpark figure here of what's involved.

**Deputy Eoghan Murphy:** Okay. And just, final question, and I'm sorry to come back to it, in terms of the burden-sharing in November 2010, but it's just to try and get some clarity on your view. Burden-sharing didn't happen. Was this because of the need to maintain market confidence in the banks in Ireland and Europe, or because the US and the G7 wanted to protect their own investments in Irish banks, in your view?

**Mr. Brian Cowen:** In my view, the stated view to us was that you would be cutting off access to the market for other countries, which are presently not in the programme, but could well be in a programme, if that were to happen.

**Deputy Eoghan Murphy:** It would protect other European countries?

**Mr. Brian Cowen:** Yes.

**Deputy Eoghan Murphy:** Okay, thank you.

**Chairman:** Very good, Deputy.

**Mr. Brian Cowen:** And the euro area.

**Chairman:** Senator MacSharry.

**Senator Marc MacSharry:** Thanks, Mr. Cowen, and just two final questions before we conclude these long two days. Can I ask you just to revisit an area that we spoke of earlier on, in terms of the briefing that was going on, which was unhelpful, and could have served us better, in your view, if people had held off for a week or two rather than giving views on other countries? Do you feel the ECB were responsible for this briefing?

**Mr. Brian Cowen:** I don't know, Deputy, and there's no point in me ascribing it to them if I don't know for sure. But ... and, I don't ... I do say that that whole structure and the number of media people around that system, and all the rest of it, there's no doubt that there was people speaking out of turn. You know, there's a ... we all have to respect each other's roles and each other's jobs. I respect the European Central Bank. I asked them ... I would have expected its people around that system ... I'm not saying the most prominent, but someone around that system wasn't according respect to the Irish Government that I would expect.

**Senator Marc MacSharry:** Were there any obvious parties to gain outside of Ireland, or Irish interests, from the briefing that was going on, by whomever, in a European context?

**Mr. Brian Cowen:** I think there were people who may have had genuine concerns about

the stability of the euro area, etc., etc., etc., who know nothing about politics, and don't understand how we, as politicians, have to try and effect democratic accountability at home, and have to work within processes that are ... that need some time to put in place. I'm not saying ... and, there was no reason, in respect of this Government, or, indeed, any Irish Government, that would be abdicating its responsibilities in a serious situation that we were involved in. So, I just felt the thing was gratuitous.

**Senator Marc MacSharry:** Finally, can I ask that, in the preamble to the establishment of this inquiry, for which all of us are focused on getting the correct answers in the public interest, in a debate in Dáil Éireann on 25 June 2013, it was said that in seeking to establish, “the truth and to remember the thousands of victims of the axis of collusion between Anglo, Fianna Fáil, and bankers”, the Taoiseach commented that he intended to get to the bottom of the situation. He said also “The banks were agents of the Government and the issue was to keep [its] property bubble booming, keep prices up and keep people getting mortgages they could not pay back for [many] many years.” Was there an axis of collusion that led to the difficulties and crisis that this country faced, between Fianna Fáil, Anglo and developers?

**Mr. Brian Cowen:** No there was no axis of collusion. It has been a politically fraught time, great difficulty for the people and for Parliament and for everyone. You know, there have been rhetorical flushes that haven't helped engender public confidence. I believe in accountability, I believe, you know, I wouldn't be in politics to suggest I got everything right or that I didn't make mistakes, things you'd like to revisit some time. But I don't believe, and I don't want to get involved in any controversies, I don't believe that was his finest hour when he ... when he said things like that.

**Chairman:** Thank you Senator. I am going to bring matters to a close now Mr. Cowen.

**Mr. Brian Cowen:** If I may just make a few short remarks?

**Chairman:** That's what I am actually going to do. I know you have been with us for two days and there may be comments that are remarks or advices because this committee is about the future as much as about the past, that you'd like to close with and I'd now like to afford you some time to make a closing statement or remarks if you wish.

**Mr. Brian Cowen:** Thank you Chairman, thank you to the committee. First of all I wish to thank the committee for the courtesy they have extended to me and indeed the many necessary and rigorous questions they have asked and the spirit in which they were asked. I have willingly come to this inquiry to be as helpful as I can. The statements that I have forwarded to you and that I have read out at these two public hearings constitute my considered opinion on the issues that you have raised with me. I hope our interaction has provided further assistance to you in the work that you are doing. I think the banking reports that my Government commissioned and the Nyberg Commission of Investigation report, along with the report that will ultimately emanate from this Oireachtas banking inquiry, will hopefully add to people's understanding of the nature and scale of crisis that confronted us and the public policy responses of successive Governments. I believe the management of the crisis over the last seven years has enabled us to look to the future with greater optimism. These improved prospects for our country would only have happened by the efforts and sacrifices of the Irish people themselves. I believe we confronted our responsibilities to the best of our ability and our democratic system is hopefully the stronger for it, despite the strains on it that were undoubtedly imposed from time to time as the crisis intensified and then abated.

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As the person who led the Government at the time, I want to place on record my appreciation for the work and efforts of all those who served the Government in all our Departments of State and agencies at that time. I believe that they displayed a strong and unswerving commitment to the State and its fortunes at all times and I am personally deeply indebted to them. In the context of the workload on policy issues that arose during this financial crisis, a particular burden was borne by the Minister for Finance, the late Brian Lenihan, and the Attorney General, Paul Gallagher, and those who worked to them. My fellow colleagues in government and in Parliament will forgive me if I pay particular tribute to the quality of their work, given the budgetary and legislative workload that they have to do and undertake during that time. Finally I want to reiterate for the record once again that what has motivated me throughout all of my political career has been to serve my country and our people to the very best of my ability. While I accept as a committed democrat the verdict of the people on the performance of the Government I led, it is my fervent hope that they accept that I never compromised my political integrity or breached the public trust in the performance of my duties as a Minister or as Taoiseach. To hold the office of Taoiseach I regard as the greatest honour. I did my duty as I saw it, it was my privilege to serve. Go raibh maith agaibh.

**Chairman:** Thank you Mr. Cowen. In bringing matters to conclusion I would like to thank you for your participation today and last week with the inquiry and to now formally excuse Mr. Cowen and to bring matters to conclusion and to adjourn until 9.30 a.m. tomorrow morning, Thursday, 9 July. Is that agreed? Agreed.

The joint committee adjourned at 7.30 p.m. until 9.30 a.m. on Thursday, 9 July 2015.