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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 9 Iúil 2015

Thursday, 9 July 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Sitting suspended at 5.27 p.m. and resumed in private session at 5.28 p.m. Sitting suspended at 5.31 p.m. and resumed in public session at 5.53 p.m.

National Treasury Management Agency - Dr. Michael Somers

Chairman: So, I now propose that we go back into public session. Is that agreed? And our final and fourth session of today is a public hearing with Dr. Michael Somers, former chief executive of the National Treasury Management Agency and ... at our next session. So, in that regard, the Committee of Inquiry into the Banking Crisis now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile phones are switched off.

At our next and final session now, we will continue on the role of the NTMA during the crisis and we'll hear from Dr. Michael Somers, former chief executive of the National Treasury Management Agency. Dr. Michael Somers was CEO of the NTMA for 19 years, from December 1990 until his retirement in December 2009. Prior to this, he was Secretary General, national debt management, in the Department of Finance and Secretary General at the Department of Finance. Dr. Somers, you're very welcome before the committee this afternoon, or this evening.

Before hearing from the witness, I wish to advise the witness that, by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings.

Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So, with that said, if I can now ask the clerk to now administer the oath to Dr. Somers, please.

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

Dr. Michael Somers, former Chief Executive, National Treasury Management Agency.

Chairman: Again, thank you Dr. Somers for your attendance today and if I can invite you to make your opening remarks please.

Dr. Michael Somers: Thank you, Chairman. I have been asked to provide a statement to the inquiry covering 24 lines of inquiry relating to my role as chief executive officer of the National Treasury Management Agency. I was appointed to that position on 3 December 1990, for a period of five years by the Minister for Finance and was re-appointed several times, finally retiring on 3 December 2009. I had previously been Secretary General, national debt management, in the Department of Finance from April 1987 and before that, I was Secretary General of Department of Defence from February 1985. I served at various levels in the Department of Finance, initially in the pensions section and later in the finance division. I also spent a period of just under two years in the Central Bank up to 1970.

As I was largely responsible for the establishment of the NTMA and its growing range of functions over 19 years, I would like to outline the rationale for its rather unique structure and how it operated. The reason for the establishment of the NTMA was the very heavy burden of the national debt at the end of the 1980s and the absence of suitably-qualified personnel in the Department of Finance to deal with the complex issue of raising funds on the international capital markets at optimum rates of interest. The then Minister for Finance, speaking on the NTMA Bill before the Dáil in 1990, said the debt was one of the highest in the OECD at over 120% of GNP at end 1989, while interest payments were put in 1990 at 9% of GNP, which he said was almost equivalent to the total yield from income tax in the PAYE sector. He continued that it was about 60% greater than total Exchequer expenditure on the health services.

The powers of the NTMA were very strictly circumscribed by legislation and related to the delegation of powers of the Minister for Finance to borrow money to fund the Exchequer. The NTMA had no power to provide any assistance to the banking sector and would have been acting outside its remit, and probably in breach of EU law, to have done so by its own decision. The following paragraphs set out the carefully designed legal basis on which it was established and operated. When funds were being raised abroad and legal documents had to be signed, it was generally done by officials of the Department of Finance acting on the basis of a signed and sealed power of attorney, given by the Minister for Finance. It would have been completely impracticable for the Minister to personally negotiate and execute all the documentation relating to loans raised throughout the world. Nevertheless, questions had been raised, generally by Irish lawyers, about the legitimacy of this procedure on the basis that the Minister could not delegate his power to a civil servant. There could have been some validity in this argument. It was felt unwise to see it legally tested as, if found to be wrong, it would have created an impossible situation in the absence of some complex legislative change.

However, when the creation of the NTMA was being considered, it was essential that this issue be resolved as there was no room for questioning the legal capacity of the NTMA to enter into contracts binding the State for very large financial commitments. Also, it was not intended the NTMA would be required to obtain a separate power of attorney from the Minister for Finance for every transaction undertaken – a situation that, as mentioned earlier, could be legally challenged anyway.

In summary, therefore, the creation of the NTMA raised constitutional issues as the functions which it would be called upon to perform were part of the executive power of the State. That power can only be exercised by or on the authority of the Government. It was felt that if the borrowing of money for the Exchequer and the management of the national debt were taken away from the Minister for Finance, it could be questioned as to whether he was still Minister for Finance. It was, however, recognised that the Government could delegate the functions of a Minister to a Minister of State, while still retaining the power to exercise those functions himself or herself.

The legislation passed by the Oireachtas provided the NTMA would be established as a body to perform, on the authority of the Government, the functions delegated to it by the Government under the Act, at that time principally borrowing and debt management. In effect it was established as a type of corporate Minister of State. The Government would delegate to it certain functions of the Minister for Finance. These would be performed, subject to the control and general superintendence of the Minister and subject to such guidelines and directions as he would give it. The chief executive would be appointed by the Minister and be directly responsible, i.e. not through a Department, to the Minister for the performance of the functions of the agency. The chief executive, who could not be a civil servant, would be answerable to the Dáil public accounts committee.

Because of the importance of the NTMA's functions as part of the executive power of the State, it was further determined that there could not be a board of directors, as with a State body, because this would diffuse responsibility to an unacceptable degree. Instead, there would be an advisory committee to assist and advise the agency on whatever it might request and be consulted by the Minister on the terms and conditions of appointment of the chief executive. The above arrangements applied throughout my period as chief executive of the NTMA. They were, however, fundamentally changed by the National Treasury Management Agency (Amendment) Act 2014, but these changes are not relevant to my statement.

I would like to draw the committee's attention to the evidence that my colleagues and I gave to the public accounts committee on 14 May 2009, over a period of about four hours. This covered, quite comprehensively, what the NTMA knew about the banking crisis at the time and the actions it had taken. I should add that on rereading the evidence I gave then, I would not see any reason to significantly change any of it. I resigned/retired from the NTMA about six months later and just over one year before my contract expired.

As a general comment before turning to the specific lines of inquiry that the committee has addressed to me, I should make the point the NTMA was quite a small organisation at that time, with a total staff of 169 when I left at end-2009. It had four main businesses, namely the borrowing and debt management functions of the State - its original purpose; the management of the National Pensions Reserve Fund; the State Claims Agency; and the National Development Finance Agency, as well as a significant number of other functions, including a small NAMA unit. These had all been assigned to the NTMA in accordance with a large number of pieces of primary legislation. A NAMA unit was set up in advance of legislation. I should emphasise that the NTMA had no regulatory, policing or oversight role and, except to the extent I might be asked for specific views, no policy input role. It was recognised by the Nyberg report that the NTMA was not a public authority. Nevertheless, it did provide any and all assistance it was asked for during the banking crisis, but would not have been party to, or present at, many of the discussions between Government Ministers, the Attorney General, the Department of Finance and the Central Bank.

I propose to respond to each of the 24 lines of inquiry in the order that you set out. I should state that, in several instances, I am unable to provide any assistance as I have no information on the subjects. In the case of others, where I have no specific knowledge, I have given such information or views as I have or may have expressed elsewhere.

The effectiveness of ECOFIN and DSG - the adequacy of the DSG process, including consideration of the bank resolution legislation: I had no involvement with ECOFIN from the time the NTMA was established. The NTMA had been invited to attend DSG meetings from late 2007 onwards in relation to the placing of deposits with domestic commercial banks. As stated in the Nyberg report, the NTMA reacted to the onset of the credit crisis like most market participants by withdrawing much of their deposits from private institutions and placing them with central banks. The NTMA provided advice and assistance from 2007 in the following areas: assistance in accessing specialist expertise; preparation of contract documentation; gathering market intelligence; assisting with communications with rating agencies and providing information concerning cost implications of changes in sovereign debt rating; the provision of liquidity to Irish banks on the basis of ministerial direction. It also put in place arrangements to allow it to engage in collateralised lending to Irish banks. The NTMA provided comments on draft legislation, as requested, from time to time.

The next item - effectiveness of the CBI liquidity group under the joint financial stability committee: the NTMA was asked to attend a group to discuss liquidity. This was composed of a member or members of the Government, the Central Bank, Department of Finance, Department of the Taoiseach, the Financial Regulator and the Attorney General - not all present on every occasion. There was generally a discussion on the liquidity situation of the banks, the extent of their borrowing from the Central Bank and problems associated with emergency lending. Frequently, all the attendees other than the NTMA, Central Bank staff and regulator's staff would adjourn to another room to discuss the situation. The role of the NTMA was generally to specify what funds we had. There was, from time to time, discussions on the NTMA placing funds with the Irish banks. We would do so but, on legal advice, only on the basis of a written direction from the Minister for Finance. I attended many of these meetings myself, and invariably did so when the Minister for Finance wished me to be present. Generally, however, someone from the NTMA was present in Government Buildings when meetings were in progress, but, in many instances, would not have been in attendance at some or most of those meetings. This was also my experience.

The role of advisers in analysing the crisis - at the request of the Minister for Finance, we hired Merrill Lynch to provide advice to him. The apparent reason for the involvement of the NTMA in this was that the Department of Finance wanted us to charge the cost to the NTMA operating budget, as they did not have adequate funds in their own budget to meet the cost - ultimately about €6 million. We also hired Dr. Peter Bacon, at the Minister's request, to produce a report for him which, ultimately, became the basis for NAMA. In addition, PwC and Arthur Cox were engaged to provide financial and legal due diligence services, respectively, in regard to the Minister's directed investments by the National Pensions Reserve Fund Commission into AIB and Bank of Ireland in 2009.

The liquidity versus solvency debate - there is some validity in the argument that lack of liquidity can lead to insolvency. Many businesses that are solvent on an ongoing basis will rapidly become insolvent if they run out of cash and have to realise assets suddenly in what might be called a fire sale. However, in the case of the banks, the enormous amounts they had lent to individual developers to enable them to pay extraordinarily high prices for property, and the rolling up of interest, much of which may have been taken into the profit and loss account, meant that insolvency was almost inevitable.

Department of Finance actions - appraisal of the conditions relating to increasing the deposit guarantee scheme; appropriateness of the bank guarantee decision. I was in the United States on the night that the decision was taken and only became aware of it through a text message from a colleague the following morning. If there was a risk of a run on the banks, then a guarantee on deposits was probably the best course of action. I understand that the senior bonds were issued on the basis that they ranked *pari passu* with deposits. The rationale for guaranteeing other bonds is not clear.

Effectiveness of reviews of banks' loans books and capital adequacy - I saw the PwC review of the banks' loan books. At that stage the damage had been done and the only question was the scale of the disaster. The early review underestimated the size of the ultimate losses; much larger State support was later required.

Decision to nationalise Anglo in 2009 and alternatives - At that stage it was probably inevitable. By then there was nothing to indicate that it had a future as a privately-owned institution.

Establishment, operation and effectiveness of NAMA - The decision to establish NAMA was taken very quickly by the Minister for Finance and I supported the Minister when he announced it. I also, at his request, went to see Mr. Trichet at the ECB to tell him that we would need about €60 million ... sorry, €60 billion from the ECB to fund it. I was hesitant about the amount of money that was going to be paid into the banks and the rapidity with which it was to be done. The Minister felt it would free up the banks to start lending again. I felt that we should take just some loans from the banks and see if that would encourage them to lend. I also felt that the banks should be pressed to recover the loans themselves as they knew where the bodies were buried. Transferring them to NAMA would be a bonanza for lawyers and other professionals, as well as requiring a large staff in NAMA. In the event, a very large number of loans were transferred to NAMA at a substantial discount. And regardless of what happened, the likelihood is that the outcome would have been the same.

Decision to recapitalise Anglo, AIB, etc., and alternatives - Some type of banking system had to be preserved for the State and the Minister went for the two pillar bank model. EBS was taken over by AIB. The problem was that NAMA imposed very substantial discounts on the loans they took over - and I'm not in a position to give a view on the correctness of their discounts - and this had the effect of wiping out the capital of the banks. They, therefore, had to be recapitalised to stay in business.

The cost of the crisis and sharing of the impact - I have no particular insights on this.

Role and influence of the ECB - The ECB and the Irish Central Bank - as part of the ECB - had a role as lender of last resort. They did provide very considerable resources to the Irish banking system, with a reported 25% of their total lending being extended to the Irish banking system. My only involvement with the ECB was, as mentioned earlier, to ask Mr. Trichet for funding for NAMA.

Options for burden-sharing during 2008-2013 - In terms of sharing the burden with other eurozone countries, this just did not find acceptance. In terms of what happened within the State, this was a matter for Government decision. On the more general question, repayments abroad by the State in respect of its own debts were made as were repayments in respect of senior bank bonds, which, as I understand it, legally ranked *pari passu* with bank deposits. Other repayments on junior bonds were also made. However, many of the other payments were between Irish residents themselves and, as such, were a transfer of wealth within the Irish State. In terms of the impact that they had on the balance sheets of banks and on their incurred losses, these had the same impact as if the cash involved was transferred out of the country. There is, in my view, a valid argument that, to the extent that losses were incurred by Irish banks arising out of transfers between Irish citizens - and which gave rise in part to the need to recapitalise the Irish banks - the case for transfers from other countries, by way of free money or grants, to recapitalise the Irish banks was questionable. Also to the extent to which cheap funds - i.e. at interest rates below what otherwise would have been the case - were made available to Ireland, there was a transfer of wealth from other eurozone countries to Ireland. This applied particularly to funds provided by the ECB and this could be classified as burden-sharing.

The role of the eurozone and international partners in the decision - I was not involved in this area.

The ... B1(a), the adequacy of board ... the composition, skills and experience of the board and board sub-committees; adequacy of board oversight over internal controls to ensure risk is properly identified, managed and monitored - As CEO of the NTMA, I had no involvement with the above. However, I would have read their annual reports and was very impressed at what they said they were doing in the area of corporate governance and risk management. Boards can, however, be quite reliant on management to bring to their attention such items as are of importance. There can be a tendency to swamp directors with vast amounts of paper and without prioritising issues with which a board should concern itself. This may be seen as a form of self-protection by management, which can argue at a later date that all matters were brought to directors' attention. I do not know to what extent this was happening in Irish banks prior to the crash or the rationale they had for the very rapid expansion of credit. Another important factor is the consensus culture on boards, where a discordant note may not be welcome, particularly on the part of a dominant chairman.

Appropriateness of funding sources - the mix, maturity profile and cost. As CEO of the NTMA, this would not have been an area where I would have had an involvement. I would have presumed that the highest standards would have applied. However, I was somewhat perplexed at the very rapid growth in credit and on one occasion spent some time going through the Central Bank statistics to try to understand it. The closest I could get to finding out the backing for this credit expansion was that, in respect of their Irish businesses, the Irish banks had borrowed somewhere between €100 billion and €200 billion. As I was surprised at this, I asked a colleague to check my figures to see if it was correct. He confirmed my findings, but was able to provide a more accurate figure.

On the same general question of some banks' approach to funding costs, I should add that on a reasonably regular basis, I came across non-Irish banks that lent money to us, and as far as I could see, either made no money, lost money, or took risks on their funding that I would have regarded as, at best, questionable on their part. To some extent, at least, banks internationally were buying market share or keeping themselves high in international rating lists, even where deals made little or no financial sense. I would not have thought this applied to Irish banks.

R1 (c) - appropriateness of the macroeconomic and prudential policy. As CEO of the NTMA, I had no functional role in these areas and would have been very .. would have very little knowledge of prudential policy. However, I was surprised that public expenditure was not cut back after the 2007 election, as it had been after the 2002 election, if for no other reason than to increase it again before the next election. I also felt that the level of house and apartment building was unsustainable by any measure and, if applied proportionately to other countries, would have given figures that were multiples of what they were actually doing. I think the same view was held by some persons at Government level and the hope was that at least some of the building workers could be employed in other non-housing construction areas. I was also aware that costs and prices in Ireland were rising more rapidly than elsewhere in euro land. These issues are difficult to correct, particularly in the absence of a crisis, and where so many people are benefitting.

The fundamental problem arose because Ireland moved from a regime which had relatively high annual growth in wages and prices but which also had its own currency and control over its value. While movements in that currency were constrained by Ireland's membership of the European Monetary System, it was possible to have currency devaluations with the agreement of other member states. What this meant was that when a country got into currency-related difficulties, it could, in effect, press the reset button by devaluing the currency and starting again. This flexibility went when Ireland joined the euro, but, in return, it was relieved of the risk of speculative pressures on its exchange rate and enjoyed a much lower interest rate regime. It also gained access to what appeared to be virtually limitless sources of credit. However, because the pattern of relatively high wage and price increases continued, competitiveness was gradually lost. Also, the Irish banks, instead of covering their lending from a large population of small to medium deposits, i.e. not large corporate deposits, relied to a great degree on borrowings from the international interbank market. By their nature these funds are short-term and need to be constantly rolled over. When this becomes difficult, and other sources of funding are not available, a crisis arises, which is what happened.

Effectiveness of the supervisory practice, Central Bank, Financial Regulator and Department of Finance - The NTMA had no involvement in the supervisory practice.

Appropriateness of the expert advice sought - As mentioned earlier, on the instructions of the Minister for Finance the NTMA got advice for him from Merrill Lynch and from Dr. Peter Bacon. It may be the Minister was receiving advice from other sources also. His decision to create NAMA would have been based on advice he obtained from Dr. Bacon. Advice was also got from PwC and Arthur Cox.

Analysis of contrarian views - By the time the crisis occurred, I do not recall any strongly voiced contrarian views which were ... would have had a significant bearing on its outcome. There were always calls from the Central Bank and other international organisations for more prudence on the part of governments. This constant crying of wolf would have blunted its effectiveness.

Appropriateness of advice from the Department of Finance to the Government - Apart from seeing a draft of a memorandum for the Government recommending the establishment of NAMA, I would not have been aware of what advice they were giving to the Government.

Appropriateness of the relationship between the Government, the Oireachtas, the banking sector and the property sector - The NTMA would not have had any particular insights into these relationships and I would not be in a position to offer any view on them.

Adequacy and impact of international organisations' oversight on banking regulation - The NTMA would have had no knowledge of what was going on in this area.

There may be a perception in some circles that the NTMA was some, sort of, shadow Department of Finance or Central Bank. While this was most certainly not the case, the NTMA did provide all such assistance and advice as we could during the financial crisis, based on the experience and knowledge we had and we assisted in procuring such other advice as was requested of us. The Central Bank-Financial Regulator had a very large staff to deal with the banking sector. The NTMA's role was very clear. Its primary function was to raise funds for the Exchequer, not to provide liquidity for the banks. This was the role of the Central Bank, as lender of last resort.

To put the role of the NTMA in context during the financial crisis and to show that we were actually doing in line with our legal obligations, it may be worthwhile to set out some of the challenges faced and activities undertaken in 2009, and the situation at the end of that year. We had a very full workload. The national debt had gone up by €25 billion during the year to stand at €75 billion. Even with that, however, the general government debt-GDP ratio was 65.6%, well below the EU average of 78.7%. On a net basis, after deducting off cash balances and the assets of the National Pensions Reserves Fund, Ireland's debt-GDP ratio was 37.9% at end-2009. The NTMA raised €35.4 billion in long-term funding in 2009, of which €24.6 billion was used to fund the Exchequer deficit, €5 billion to refinance a maturing €5 billion bond, leaving €5 billion in long-term funding for the 2010 deficit. Foreign investors held 84% of Ireland's bonds at end 2009. The four major credit rating agencies still rated Ireland at AA at end-2009. The yield premium over Germany had narrowed to 1.45%, down from 3% earlier in the year. The debt service costs were €686 million below budget, approximately half of which was due to interest rates achieved by the NTMA on 2009 borrowing, which were lower than those prevailing at the time the supplementary budget, which was agreed in April 2009.

The State Claims Agency - the name used by the NTMA when dealing with claims - had received 1,219 new claims during 2009, had settled 1,631 claims and was managing about 4,000 claims at year end. Of these, there were 1,783 clinical claims under management, with an estimated cost of €693 million. Obstetric-related claims, although only 18% of the total, represented 57% of the total estimated liability. The State Claims Agency had a statutory brief to provide advice and assistance to all health enterprises and worked to support patient safety and help minimise clinical claims. A comprehensive programme of training and services was undertaken in 2009, particularly targeted at hospital consultants and other speciality groups. The State Claims Agency also dealt with employer liability, public liability and third-party property damage claims, with 2,271 such claims - having an estimated cost of €90 million - under management at end-2009. In this area, the SCA encouraged State authorities to implement internationally benchmarked health and safety management systems and worked with the Defence Forces, the Irish Prison Service, the Garda Síochána, as well as other Government Departments.

The NTMA, as manager of the National Pensions Reserve Fund, invested €7 billion in preference shares in AIB and Bank of Ireland on the direction of the Minister for Finance, known as directed investments. Arrangements were also made to transfer the assets of 16 universities and non-commercial State bodies' pension funds to the NPRF. The fund disinvested from seven companies and excluded four others because of their involvement in the manufacture of cluster munitions or other anti-personnel devices or because they had not sufficiently distanced themselves from their manufacture.

The NPRF was invested in quoted equities, including global large cap, global small cap and global emerging markets, fixed income, including eurozone government bonds and corporate bonds, and alternative assets, including private equity, property, commodities and forestry, absolute return investments and infrastructure, as well as the directed investments in the two main banks. The directed portfolio, i.e., excluding the investment in the banks, recorded a return of 20.6% in 2009. The fund at end 2009 was valued at €22.3 billion.

The National Development Finance Agency, established in 2003 to provide a financial advisory service to State bodies in respect of capital projects, had its remit significantly expanded in 2007 to include the actual procurement of all PPP public capital projects, except transport projects. By end-2009, the NDFA had completed its advice on 48 projects with a combined capital value of over €6.5 billion, was working on over 50 active projects and had brought the first bundle of schools to financial close. Among the projects on which the NDFA had provided advice, and which were commissioned in 2009 or shortly thereafter, were the Criminal Courts of Justice building, the Dublin Convention Centre, the Aviva Stadium, the national integrated medical imaging system and much work had been put into metro north project, as well as the third level education PPP programme, the National Concert Hall, the DART underground project and the national plan for radiation oncology.

In addition to the above functions, the NTMA was responsible for: the Housing Finance Agency commercial paper programme; the provision of central treasury services to non-commercial State bodies - local government authorities, the HSE and vocational educational committees - providing them with a competitive alternative to the banking sector for their treasury business; the European Central Bank liquidity management, which was regulating the level of Government cash balances at the Central Bank of Ireland; agricultural commodity intervention bills issued on behalf of the Minister for Agriculture to fund the gap between agricultural intervention payments by the Minister and recoupment from the EU – there was a turnover €465 billion, sorry, that's million, I think, in 2009; dormant accounts fund - certain unclaimed balances on bank accounts and insurance policies are received and managed by the NTMA, €135 million at end 2009, pending disbursement by the Government or repayment to the owners; the social insurance fund - the NTMA had managed the surplus on this fund since 2001 and during 2009 transferred €2.9 billion back to the Department of Social and Family Affairs; emissions trading - the NTMA was designated as the national purchasing agent for the purchase of carbon credits on behalf of Ireland in accordance with the Kyoto Protocol.

In summary, at end-2009 the NTMA had €21.8 billion in liquid assets to fund the Exchequer into the future and €22.3 billion in the National Pensions Reserve Fund and its total staff at end 2009 was 169. By the time the NTMA was brought into the deliberations on the banking crisis, there were no easy solutions. However, by virtue of the fact that the NTMA existed and had prudently managed its operations, the State was in a much better condition financially to tackle the crisis than would otherwise have been the case. Thank you, Chairman.

Chairman: Thank you very much and if I can invite Deputy Michael McGrath. Deputy, you have 25 minutes.

Deputy Michael McGrath: Thank you very much, Chair, and you are very welcome, Dr. Somers, and thank you for getting through a very comprehensive statement there quite quickly. Can I start by asking about the Merrill Lynch memo for the Government on Sunday, 28 September 2008? And can I ask you to comment on the discussions and the options considered at that time and the advice the NTMA would have provided to the Government? As you know, that memo set out a number of strategic options which were available and were discussions held with other advisers for a wider view of those options?

Dr. Michael Somers: In September 2008?

Deputy Michael McGrath: Yes.

Dr. Michael Somers: I don't think, Deputy, that I was actually at that meeting. That was the day, I think, before the 29th when the guarantee was given. I had been away the early part of that week. I'm the Irish director on the board of the European Investment Bank and I was away on Monday and Tuesday. So I was back Wednesday, Thursday, Friday and I have nothing in my diary to indicate that I was at any of those meetings or was involved with it at all.

Now we did hire Merrill Lynch on the direction of the Minister for Finance. We didn't need them, we were not looking for their advice, and they did tend to interact directly with the Department of Finance. We did get some stuff from them but not, as far as I know ... we were ... while we pay them, we were not their main contact point.

Deputy Michael McGrath: Okay. So when did you see that memo?

Dr. Michael Somers: When did I see it?

Deputy Michael McGrath: Were you away that weekend?

Dr. Michael Somers: I was ... no, I was around for the weekend but I wasn't asked or involved with any of the meetings that took place, so I wouldn't have seen it till some time thereafter. And I went off then on Monday morning, John Corrigan and myself took the 10.30 flight to New York. We were not aware that there was any particular crisis because if there was we could have stayed. We were going to New York to meet with ... it was in connection with the National Pensions Reserve Fund. We were meeting various entities we'd invested money with and were meeting others that had ideas about how we could maximise the return on the pension fund. But if we'd known there was any kind of a crisis or anything along, around, we could very easily have changed our arrangements.

Deputy Michael McGrath: Then the Merrill Lynch presentation to the NTMA two days earlier on 26 September which again set out a number of strategic options. Were you provided with a copy of that at the time and were you involved in any discussions on the 26th or prior to your departure?

Dr. Michael Somers: If a ... now my memory isn't as good as it might have been. But if there was a presentation and I was there, I would have attended it and I would have listened carefully to what they had to say. They had been hired at very short notice, on the direction of the Minister for Finance, and we had engaged them. And whatever presentations they made, we would have got a copy of them. And as I say, I would have listened to what they had to say.

Deputy Michael McGrath: You were in attendance at a meeting which the note says was 25 September, so it's on page 23 of the evidence book, where "CEO NTMA" is listed as being in attendance. So this was a meeting to discuss liquidity issues. Do you recall that meeting?

Dr. Michael Somers: I attended, Deputy, I attended so many meetings that ... I see that I'm listed there among the large number of people who would have attended so I assume I was there. I don't at this stage recall very much about it but I accept that I was there and I listened to whatever they had to say.

Deputy Michael McGrath: And do you share the view of Mr. McDonagh, which he expressed earlier on, that the expectation within the NTMA was that Anglo would be nationalised?

Dr. Michael Somers: We ... in looking at Anglo, we felt that it didn't have any future. We had been sceptical about it for quite a long time. We felt that it grew very rapidly, it seemed to make very good profits, it seemed to pay over the odds for cash, it seemed to charge over the odds when it lent out money. It didn't have a natural deposit base. It was kind of, we felt, an accident waiting to happen. It relied largely on either large deposits or funding on the interbank market. It didn't have a natural small deposit base which at least might be ... you know, fairly secure that you wouldn't find all these deposits disappearing at the one time. But if you rely on the interbank market which is ... it's certainly not made for backing long-term lending ... well, there's going to be trouble. So they had obviously got into trouble. The impression we had was that a lot of their loans were ... well they'd been provided for property, etc., they would have been questionable. Whether it was going to be nationalised then or at a later stage or whatever, I don't know. But my general view would have been that it didn't have a long-term future and that it wasn't something that we could bring back to life again.

Deputy Michael McGrath: So was it the view of NTMA at the end of September '08, that if something had to be done with Anglo that it should be nationalised, as opposed to guaranteed?

Dr. Michael Somers: I think a guarantee might have just bought it a short period of safety perhaps. I mean, if there was going to be ... nationalisation might take a while. I mean, I haven't ... I'm not very clear on how quickly you can actually nationalise a bank but you can do a guarantee very quickly and I had experience many years beforehand of a run on the Dublin Trustee Savings Bank where a panic was created because they were apparently running out of cash and it was not a scene I would want to see repeated. So, if something had to be done quickly, I would have favoured a guarantee. That did not necessarily ... guaranteeing deposits ... that did not necessarily rule out nationalising it at a later stage.

Deputy Michael McGrath: Okay. But you're not saying that. Your position was that Anglo should be nationalised at the end of September.

Dr. Michael Somers: I'm not saying that I felt that strongly about it at that stage. It was kind of an evolving view. I mean, by the end of the year, I think we all felt that this had no future. I mean, our view has been widely publicised ... was probably shown by the fact that we did not want to put cash with them. Now, we were that dubious about them and that I suppose, in itself, indicated the level of concern that we would have had about that organisation. So, we would have wanted to stay away from it.

Deputy Michael McGrath: And were you aware at the time that Mr. McDonagh, as the director of finance, was strongly of the view that the bank should be nationalised? He felt that it was insolvent and that he conveyed that to the Department of Finance through Kevin Cardiff? That's what he told us in the last couple of hours. Were you aware of that at the time?

Dr. Michael Somers: Yes, and ... we would have discussed all this stuff pretty regularly. We had a management set up in the NTMA, where we met and discussed everything of importance, and we would generally have been *ad idem* on everything. There were no strong disagreements between us and if we-----

Deputy Michael McGrath: He would have been speaking for the NTMA?

Dr. Michael Somers: He would have been speaking-----

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

Dr. Michael Somers: Yes, yes. I mean, I would have had full confidence in what ... in his judgment and his expertise.

Deputy Michael McGrath: Okay.

Dr. Michael Somers: He was much closer to a lot of this stuff than I was because I was being dragged here, there and yonder with all the other things I had to do.

Deputy Michael McGrath: But the content of his message is quite different to what you said a few moments ago where you seem to be somewhat indifferent on the question of nationalising Anglo. His message was, “It should be nationalised. Essentially, it’s insolvent and it shouldn’t be guaranteed.”

Dr. Michael Somers: Well, if it came to a crunch between what he was saying and my view, I would have gone along with him.

Deputy Michael McGrath: But you were the boss.

Dr. Michael Somers: I know I was but I would have taken his advice and if he felt that that was the correct decision because, as I say, he went into it an awful lot more than I did, I would have accepted his decisions and said, “Okay, yes, I’ll go along with that. We’ll nationalise it.”

Deputy Michael McGrath: Okay. I suppose, I’m just trying to get-----

Dr. Michael Somers: I should say, we had no particular role in this. I mean, we were just being asked questions.

Deputy Michael McGrath: Yes, but I’m just trying to get clarity on what the NTMA position was. I don’t think I’m quite there yet ... at the end of September as to what the NTMA was saying to the authorities and the Government as to what you recommended should be done.

Dr. Michael Somers: Well, I’m not sure to what extent we were asked ... we were being asked for our views. Whether you could regard those views as recommendations or not or whether people were going to act on them, I think, we would have been uncertain about it. And we were not, as Brendan McDonagh said, we were certainly not present at all the meetings that took place. We had partial information.

Deputy Michael McGrath: Okay. And what was your overall view then of the decision to issue a guarantee?

Dr. Michael Somers: The famous night of the guarantee?

Deputy Michael McGrath: Yes.

Dr. Michael Somers: As I said, I was in New York and I got a message from Brendan McDonagh, which I picked up the following morning on my phone, about it. When you’re not there, you’re not very sure. I mean, I’ve heard so many different descriptions of what went on that night. The one that seemed to me to be most credible was that the two main banks went in and said they were prepared to provide €5 billion each to Anglo to keep them going on the basis that they would get a State guarantee and for whatever reason by, I think that was 6 o’clock or something in the evening, in the early hours of the morning that seemed to have turned into a guarantee of everything that moved. Now, what happened in between, I don’t know. I mean, I wasn’t there. I’ve heard bits and pieces of gossip but if I was there and we were threatened with a run on the bank, I would have felt that whatever else happens, we cannot have a run of depositors on the bank and if that requires a guarantee, well, we give a guarantee. The question then is what exactly do you guarantee? Do you guarantee everything? I would have guaranteed deposits. Whether I would have guaranteed the full 100% of deposits or not, I don’t know. Because, you know, there would have been an interplay of ideas. I certainly would have balked, I think, at going any further than that because I wouldn’t have felt it was absolutely necessary to go any further than that. The thing, as I would have seen it, was to avoid a run on the banks, a physical run on the banks with people panicking outside banks looking for their cash back and

I would have felt that would have to be stopped.

Deputy Michael McGrath: So you wouldn't necessarily have guaranteed existing bonds, senior bonds?

Dr. Michael Somers: I would have needed a lot of persuasion. I mean, my attitude would have been give as little as you can, until you are pushed to give more and you are absolutely convinced that you have to give more. Now I did hear that ... and I don't know how accurate this would be, that legally, in the prospectuses for those senior bonds that they ranked *pari passu* with deposits. But, if the State, which didn't own any of these banks at this stage, if that had moved in to give a guarantee, it didn't necessarily have to, I think, guarantee the bonds because they ranked *pari passu* with deposits. I think you could have just guaranteed the deposits because it was a third party and it could move in to do whatever it wished.

Deputy Michael McGrath: And do you think in the heat of the severe liquidity crisis, that guaranteeing the deposits but not guaranteeing the bonds would have allowed the banks then to raise money in the markets?

Dr. Michael Somers: Well, it probably ... would it have? It probably would have given a bit of time. I mean, to some extent, this was a question, I suppose, of buying time. Decisions taken in the middle of the night I don't think are ever a good idea and I would have sought to buy time and to sleep on it and to see because, you know, things can strike you, you know, between going asleep at night and waking up the following morning. You can get thoughts, ideas that-----

Deputy Michael McGrath: Your view on the fact that your colleagues, Mr. McDonagh and Mr. Whelan, were present in Government Buildings on the night but were not invited into the meeting and asked their opinion?

Dr. Michael Somers: I would have regarded that as typical. I endured the same thing myself time and time again. So I mean I ... there was a meeting in December where we were called in. It was a Sunday and we were called in, asked for a meeting at 11 o'clock and we were put into a room and at half two, the Taoiseach opened the door and stuck his head in and said, ''Oh, you're here. We're off to get lunch'.' So they went off somewhere. We went across the road to the Merrion Hotel and we got a bowl of soup and we came back and we were asked in then at half five to ... we were shown a statement that they were going to release. And that was it, that was the way the thing worked. We were not part of the inner circle. People seem to think we knew everything that moved. We didn't. And we didn't even know what we didn't know.

Deputy Michael McGrath: Okay. Can I raise the issue of the placing of deposits by the NTMA in the Irish banks and the decision that was made in August of 2007 to cease that practice and as deposits matured, that you wouldn't be renewing them and you would be placing them in the Central Bank. Can you outline your thinking at that time? Was it concern with the Irish banking system, the global banking system ... what was driving that decision?

Dr. Michael Somers: Well, my concern was that we were entrusted with these funds and our overriding concern was that under no circumstances could those funds be lost or could they be put at risk. I think Brendan McDonagh mentioned there about August 2007 that he called me. I got a phone call then, either from the Department of Finance or the Central Bank. I think it was the Department of Finance complaining that we, as deposits matured, we were taking them off the ... away from the banks and putting them into the Central Bank and we were causing problems. So I rang back, I think it was to Oliver Whelan and said, ''I am getting these complaints, what's the scene?'' because I was on holidays at the time and I wasn't completely up to speed with what was happening. So he said to me, ''Look, there is general unease about what's going on'', and he said, ''Well, but as the deposits mature'', he said, ''in accordance with your views, we are taking them off and putting them in the Central Bank''. And I said, ''Well, continue to do so.'' And I think I rang back the Department of Finance and said, ''I have told the boy ... I'm not going on with what you want, I have told the boys to continue doing it ... taking it off and putting it into the Central Bank'', that we are not taking any risks. And I think it was Brendan McDonagh who said to you that the pressure then continued on us at every meeting that we went to, we seemed to be the ... we were only asked along because I think we had the money and they wanted us to part with-----

Deputy Michael McGrath: Where was the pressure from, Dr. Somers?

Dr. Michael Somers: The pressure would have mainly been at Civil Service level, to some extent, at Central Bank level.

Deputy Michael McGrath: The Department of Finance, Central Bank?

Dr. Michael Somers: Yes, more the Department of Finance than the Central Bank. But, I mean, they were *ad idem* on this, that we had the cash and we should move to be a bit more co-operative, as it were.

Deputy Michael McGrath: And had you a particular concern about Anglo back in August 2007?

Dr. Michael Somers: I had ... I always had a concern about Anglo and there was always pressure on us to put money with Anglo. Now, initially we had nothing with them and then they got of an upgrade from one of the credit rating agencies and the pressure came on again. By the way, I should add it didn't come on to me personally from Anglo.

Deputy Michael McGrath: Yes.

Dr. Michael Somers: It came onto my colleagues. And we agreed we'd put in €40 million for up to one year, and the pressure continued from them to put in more and we wouldn't put in any more. Now when the crisis occurred I checked on the Anglo deposit, and somewhat to my dismay I discovered that the deposit had been put on for 12 months, it was a 12-month deposit, because I thought maybe if it's three months, we'll get our money back quickly and that'll be the end of it. But, unfortunately, it was on for 12 months. So I went to see then could I get a credit default swap, which is effectively an insurance against the bank going bust, to cover the Anglo deposit but, I mean, the costs were off the wall for us to do it, even at that early stage. Obviously, there was very little confidence in the ... in Anglo.

Deputy Michael McGrath: Was the bottom line that you were concerned that the bank would collapse and you would lose your money?

Dr. Michael Somers: Yes, yes.

Deputy Michael McGrath: You thought that was a real risk? Even in 2007?

Dr. Michael Somers: Well, it was a possibility. I just did not feel comfortable with this thing. I didn't know what was going to happen. I mean, I'd no particular insights. People think I knew something. I actually didn't know anything. But I was always jumpy about ... as Brendan McDonagh said, we were a very conservative bunch of people. And if we lost State funds, our necks would have been on the chopping block and we were not prepared to take any risks.

Deputy Michael McGrath: But you clearly had serious concerns about Anglo. Did you convey those concerns to the Department of Finance, the Central Bank, the Financial Regulator? This is going back to August 2007.

Dr. Michael Somers: Well, they knew by our views that we did not want to put any more money with these people, that that was our view. We had ... we didn't have confidence in them.

Deputy Michael McGrath: And then you got a letter directing you, from the then Minister Cowen, on 19 December 2007 to place deposits with the banks. How did you feel about that?

Dr. Michael Somers: Well the ... I was under ... every meeting I attended of the Department of Finance, Central Bank, whatever, I came under pressure to provide money for the banks which I steadfastly refused to do. And we had a meeting of the NTMA advisory committee, I think it was about 6 December, when the pressure was extreme. And I went off and I said I'd have to get legal advice on this as to where do I stand. Because, I mean, the Minister for Finance was my boss and I wanted to see, well, what do I do? Because the legal power that we were using was to borrow money for the Exchequer. It wasn't to borrow money to bail out the banks and that was ... I signed prospectuses, statements to the Stock Exchange and everything else, stating that this was what we were borrowing money for. And this was what ... the undertakings that I gave to banks. We were borrowing money to fund the Exchequer. Here we were being pushed to use that money, which was there to pay the bills at the end of the week, to instead prop up the banks, to provide liquidity for the banks. So I went off and I asked for a legal opinion. I asked, by the way, was this legal opinion provided to you, and I gather it hasn't been, although I have no objection whatsoever to applying ... to giving it to you. It ... I gave it to the two Ministers. I gave it to the Department of Finance and I'm quite happy to share the context ... contents with you.

Chairman: Can I get that noted, and-----

Dr. Michael Somers: Sorry?

Chairman: Can I get that noted this evening so and we'll move on with your offer of co-operation there, Mr. Somers? Deputy McGrath.

Deputy Michael McGrath: And that advice essentially confirmed that you had to honour the direction, is that the case, Dr. Somers?

Dr. Michael Somers: What it said to me was that ... I mean, apart from I might be doing with the money, it also said that by providing deposits to Irish banks we could be in breach of two EU laws, that we were providing preference to banks of a particular nationality, i.e. Irish banks, which apparently was in contravention of Article 12 of the treaty, that you can't discriminate on grounds of nationality. And the second thing was that we could be in breach of state aid rules because this would be regarded as state aid to a particular group of banks, and that we were not entitled to provide a state aid unless it was cleared by the European Commission, and that it was unlikely that it would be cleared by the European Commission.

So, it ... the legal advice to me then was, "Well, look, you can't do it." There was a question mark about whether the Minister could do it, but, the advice to me was, if the Minister tells you, I mean, what it said was:

> If a policy direction was given, querist would have to treat it as presumptively valid and would have to comply. However, in the absence of a direction, it would not, in my view, be legitimate for querist to pursue the course of action proposed. And, if the Minister wishes querist to adopt this course of action, he has a statutory procedure available to him. This procedure has been provided for the purpose, namely, of transparent ministerial control. It would not be appropriate to bypass, or, in any way, undermine that statutory mechanism by accepting and acting upon informal departmental requests or suggestions. [Sorry, I'm not going to read a whole load of stuff here, but if I may,] Querist owes a good faith duty to prudently manage funds under its control in accordance with law and in accordance with its own assessment of risk. I do not believe it is legitimate for querist to use his fiduciary powers to pursue wider policy objectives, no matter how laudable these objectives may be, without the protection of a ministerial direction.

So, that was the basis on which I said to the Minister, there's my thing, "If you want it done, you will have to direct me to do it, and then I will do it."

Deputy Michael McGrath: Okay. And then, by June 2008, the NTMA had a total of €790 million in the Irish banks, against your will, as such, but you were directed to do so.

Dr. Michael Somers: Well, I mean, I was the Minister's agent.

Deputy Michael McGrath: Yes.

Dr. Michael Somers: And, I ... my personal view is, I suppose, well, I was uncomfortable doing it because money wasn't that easy to come by, but I had to do what I was told, and I did what I was told, and-----

Deputy Michael McGrath: And should the fact that the NTMA demonstrated such a lack of confidence in the Irish banks have really sent a warning to the Central Bank, to Government at that stage that you had serious concerns, and that those should be acted on?

Dr. Michael Somers: Well, I would have thought so. I mean, they ... our attitude was, we have this money, we've placed it with the Central Bank. You, Central Bank, if you want to, you can use it to fund banks, you know. "Why are you looking for us to use it to fund banks? Have you not got confidence? Why don't you go and do it yourselves?" So, that was basically our line. And we also felt that they were the lender of last resort, they were part of the ECB, and they should be able to get whatever cash they needed.

Deputy Michael McGrath: Okay. In relation to NAMA, Dr. Somers, can I ask you to comment further on your statement, which is on page 8, that, even when loans are transferred to NAMA, participating banks should still be pressed to recover those loans themselves, as they knew "where the bodies were buried". Was there an assumption that the existing management in banks would not be in a position to objectively assess the likely losses in their loan books and might just kick the can down the road? So, just explain that, why-----

Dr. Michael Somers: Well, when the NAMA project came up, you know, I ... the Minister, the Taoiseach, I think it was, did ask me ... asked a lot of us around the table did we support the idea, and we said, "Yes, we did." The more I thought about it, the ... well, I didn't quite know how it was going to be implemented, and I was uneasy about putting such a huge amount of State money into ... handing it over to the banks. The story was that if we didn't do this, the banks wouldn't start lending again. Now, of course, you could say, with the benefit of hindsight, well, did we really want them to start lending again? It was the lending that had caused all the trouble, and did we want to facilitate them in this? But anyway, that was, kind of, beside the point But, I felt that ... the banks were supposed to have 5,000 people dealing with all these problem loans, and we, at that stage, didn't have anybody. I mean, we needed to build up a NAMA operation. Now, I was very conscious myself of how difficult it is to get suitable people, to weld them into a team, to get them properly motivated, to set up all the systems, etc., and my initial idea - and I didn't know how the NAMA thing was going to develop at this stage - my initial idea was that if it came through the NTMA to run, maybe we could do it in the same way as we did with some of the other things we had. You know, we had the NDFA, we had State Claims Agency, etc., and that maybe we could get a small number of people, perhaps 30 or 40 people, and get the banks to do the donkey work and we would oversee them, and pressurise them to, effectively, get the money back, because that was my first thought, you know, they, they probably have commitments to, to people, property developers. And, I, I was shocked when I saw the level of loans that were out. But, that they could pressurise people to get the money back. I mean, they're well capable of pressurising people who owe them money to come back with it, whereas trying to set up a new NAMA unit. it didn't seem to me to be the optical solution. Now, I accept I could have been wrong on that because I think, well, okay, if they have it-----

Deputy Michael McGrath: Finally, Dr. Somers, can you explain why the Minister for Finance which would have been Brian Lenihan requested you to visit Jean-Claude Trichet, given that the Minister would have had regular contact with Mr. Trichet and his officials? This is in relation to the €60 billion sum that you were seeking for NAMA. So can you comment on that and can you give us some background on how the €60 billion figure was arrived at?

Dr. Michael Somers: It was, kind of, an unusual situation. The way NAMA was developing, it looked as though they were going to need €60 billion funding to buy the loans off the banks. I knew Mr. Trichet for very many years because I had been on various committees with him and I knew him from the 1980s. We had been on the EU monetary committee and we were involved with setting up the EBRD, etc., and I knew him reasonably well on a personal basis.

The Minister approached me about it, he said, "Would you go and talk to Mr. Trichet and tell him we need €60 billion?" So I said to him, "Would it not be more appropriate for the Central Bank or the Department of Finance to do it?" And he said "Would you go and do it you know him?" So I said, "Okay, I'll go and do it." So I arranged it anyway, I got my PA to ring Mr. Trichet's office and said, "Look, I'd like to go out and see him." I don't think we said what exactly I wanted and he said, "Yes, that's fine." And I arranged to go out and see him I think it was about March 2009. I have the date here somewhere.

But that information got out to the Central Bank who were, I think, quite perturbed about it. They and the Department of Finance insisted on accompanying me out to see Mr. Trichet. The thing became a bit bizarre after that. I think there were two from the Central Bank - the Governor and the head of the director general and I think it was Kevin Cardiff from the Department of Finance. They went out themselves and I went out on a separate plane. For the life of me I can't remember why. We went into the ECB building and it became a bit fuzzy but they arranged that we would meet some officials from the ECB and what surprised me was the length of time that the Central Bank people took in trying to explain our situation to the ECB people. I thought that they would be in regular contact and they would be way up to speed. Then at some stage or other I said, "What about meeting Mr. Trichet?" And I was told Mr. Trichet is not available. So I thought that was very strange. So I phoned back to my PA in Dublin and I said "Would you ever ring Jean-Claude's office and find out what's going on here, I am supposed to see him?" So she contacted them anyway and she came back and she said "Oh yeah no, he is available to see you at 11 o'clock or 12 o'clock", - whatever the time was.

Anyway, it was coming up to that time and I said, "Where does the president sit?" So the Governor of the Central Bank insisted on coming with me and we went in to see Jean-Claude Trichet. As I say I knew him well, I was on first name terms with him. I was quite surprised that the Governor was not on first-name terms with *Monsieur le Président*, etc., and I would have thought they would have had a closer relationship. So we chatted anyway and I said, "Listen Jean-Claude, I am here on a rather difficult mission. You are aware of our difficulties and I am afraid we are going to have to come to you looking for €60 billion."

Chairman: Just as well you knew him as Jean-Claude. Mr. Somers, sorry.

Dr. Michael Somers: I thought he would fall off his chair but he didn't. By the way I repeated it, you may recall, when he was over here at the inquiry and I said ... because I was interested to see would he react to what I said and he didn't.

Deputy Michael McGrath: Did you get the €60 billion?

Dr. Michael Somers: Well, whatever was needed for NAMA, we got it yes. That was the end of my involvement. I was there, I think, to, as it were, drop the bombshell and tell him, "Here we are, we need all this money."

Deputy Michael McGrath: Who gave you the figure? Was it the Department said it's €60 billion?

Dr. Michael Somers: It must have been the Department of Finance that gave me the figure. I didn't think it up myself. Or maybe the Minister said to me, "Will you go out and tell him we need €60 billion?"

Deputy Michael McGrath: Were you given a file? Was there paperwork around-----

Dr. Michael Somers: No. I did not go out with any paperwork; I just went out with the figure.

Deputy Michael McGrath: Just a figure of €60 billion in your head?

Dr. Michael Somers: Yes and that was it.

Deputy Michael McGrath: Thank you very much.

Chairman: Okay. Senator Michael D'Arcy. Senator, 25 minutes.

Senator Michael D'Arcy: Should you have asked for more than €60 billion?

Dr. Michael Somers: Well, I think others-----

Senator Michael D'Arcy: Mr. Somers, thank you for coming. You saw the market sentiment towards the Irish banks, in particular Anglo. I assume you knew about the St. Patrick's Day massacre.

Dr. Michael Somers: Oh yes.

Senator Michael D'Arcy: And you saw the credit default swap pricing? Should you have done more, should you have told the Minister that you wouldn't place those moneys in the Irish banks?

Dr. Michael Somers: Well, he knew, because we said to him, "We're not going to do it" and that's why we ended up going for this legal opinion and insisting that we wouldn't place any money with them unless he gave us a written direction. And the written direction, you know, covered, you know, whatever it was, a three-month or six-month deposit, and we said, "Now, unless we get another direction, we're taking that money out and we're going to put it back into the Central Bank, so do you want to give us another direction?" I mean, this didn't do any ... didn't do an awful lot for personal relationships because, you know, the Minister was ... would have been ... or the Department would have been quite happy if we had just done it without any direction, but we were not doing it without any direction.

Senator Michael D'Arcy: And did you request a second?

Dr. Michael Somers: Yes, and any subsequent thing, that, "We're not doing it unless we are directed each time."

Senator Michael D'Arcy: Can I ask you, Mr. Somers, about the deposit guarantee scheme? The increase from €20,000 to €100,000 brought a contingent liability on the State of up to €70 billion. That was a fivefold increase; that was a lot. The UK guaranteed amount was £35,000 sterling. Was ... you seem to be intimating, and I don't mean to lead you, but you seem to be intimating that there should have been smaller steps perhaps more often, than-----

Dr. Michael Somers: I wouldn't have been terribly concerned about the guarantee up to €100,000. I mean, that was done. I don't think we were consulted or involved or anything in that, but, I mean, it wouldn't have caused me any undue concern. I think the British subsequently went up to £85,000 or something, sterling. It was just ... Deputy McGrath put to me, I think, about what I would have done if I was there on the night. I mean, my general approach to things was I didn't give anything unless I was absolutely arm-twisted to give it, but I would have been very concerned about a run on the banks, particularly a physical run on the banks if you have people panicking because you don't know where ... how you're going to control it then. It's out of your hands; you've lost control. So, if I was asked, "What do we do?" I would have said, "Yes, we guarantee the deposits." Guaranteeing bondholders I would have ... I think I would have said I'd long-finger that and I'll think about it because I just don't know and there wouldn't, as far as I know, have been any legal obligation on us to do it just because we guaranteed the deposits, because we were not the owners of the banks. But, down the road then, I don't know. I mean, maybe we would have had to guarantee them anyway.

Senator Michael D'Arcy: Mr. McDonagh, in evidence, I think it's the first occasion it's been brought to our attention that he e-mailed Kevin Cardiff, I think he said earlier, with 33 questions. Were you aware that that e-mail went from Mr. McDonagh to Mr. Cardiff?

Dr. Michael Somers: I wasn't, but I would have cheered him on if I had known it. I probably did see the thing after it with the questions. I mean, the problem we had with the Department of Finance was we were not the regulator or the controller. We had oodles of other things to be keeping us going and I just ... I earmarked the four ... the three people in the NTMA: John Corrigan, who had a full-time job trying to run the pension fund; Brendan was running all the IT, back office, payments etc.; and Oliver Whelan, who was trying to do the borrowing on behalf of the State; and then I was the CEO, I was trying to keep all the ... the balls in the air. But this was kind of a part-time activity for us. We had no particular expertise in terms of bank restructuring or ... and we didn't particularly want to and we weren't ... you know, mentalitywise, we were not policemen or controllers. We were trying to get on with the businesses that we were charged with. And Brendan was extremely active. I mean, he'd boundless energy and he worked day and night at this thing and he ... I suppose to an extent the rest of us were doing travelling because I was the Irish director on the EIB board, so that took me away out of Dublin two days per month and then we had all the other things going on. You know, we had to do endless marketing in terms of Irish bonds. We had to keep an eye on the pension fund. John Corrigan was doing a lot of that, Oliver Whelan was doing it, I was doing it. Brendan at least was stationary in Dublin. He didn't do a huge amount of travel, so he got dug into these things a lot more than the rest of us did.

Senator Michael D'Arcy: Okay. Mr. McDonagh said earlier today, Mr. Somers, that there was ... when he was in conversations with the Financial Regulator, there was no information.

Dr. Michael Somers: Yes.

Senator Michael D'Arcy: He subsequently said that, until the NTMA hired, on behalf of the Department of Finance, Merrill Lynch, that there was no structure. Were you aware that the apparatus of the State was operating in that way in relation-----

Dr. Michael Somers: I didn't think ... well, there were what, 1,000-plus people down Dame Street. I didn't know, I mean, I assumed that they were looking after the banks because if they weren't I don't know what else they were all doing. I wouldn't have known how many people they would have had looking at the banks but I must say, I'm quite surprised that they could have had such a ... such a small number of people looking at these institutions. Because you know, there are major institutions, they may have been just taking it that all was well.

Senator Michael D'Arcy: Can I ask you if the NTMA had any analysis of the large debt or concentrations in multi-bank loan exposures by the Irish banks?

Dr. Michael Somers: No, we wouldn't have known any of that stuff. When the Pricewaterhouse report came in, I must say I was flabbergasted when I saw the size of the loans that were out ... because it was all amalgamated there, and I was flabbergasted to see the size of the loans which were advanced by the Irish banking system to individuals. I mean, they ran to billions. And I think I wrote to the Minister for Finance, he'd asked me to write a letter to him about what I thought of the overall economic and financial scene, and I wrote to him and one of the things I mentioned was that some individual had loans from the banking system equivalent to 3% of our GNP, which I thought was absolutely staggering. Because we were going out borrowing-----

Chairman: What period was that Mr. Somers when you were-----

Senator Michael D'Arcy: The PwC report.

Chairman: You know 3%, an individual in the state-----

Dr. Michael Somers: These would have been-----

Chairman: -----had debts to the size of 3% of our GDP?.

Dr. Michael Somers: Yes, this is the figure that I gave to him. It ... when I saw the total of the loans, I think we go the top 25 loans-----

Chairman: Was this advice to the Taoiseach?

Dr. Michael Somers: Sorry, no. To the Minister of Finance.

Chairman: The Minister of Finance. When? Which Minister for Finance?

Dr. Michael Somers: It would have been Mr. Lenihan.

Chairman: Okay, thank you. Fine.

Senator Michael D'Arcy: Yes. Was there any peer analysis carried out by NAMA in the lead up to the crisis, a peer review?

Dr. Michael Somers: You mean by us?

Senator Michael D'Arcy: Yes.

Dr. Michael Somers: No, I mean, we didn't have these kind of capabilities. As I say we ... for us, this was very much a part-time thing, we were brought into it. And the main reason we were brought into it, as I said before, was because we had the cash and they wanted to relieve us of that cash.

Senator Michael D'Arcy: Not your expertise?

Dr. Michael Somers: I don't think so. I mean, we had no particular expertise in restructuring banks. We knew bank capital, we knew capital markets, we knew how to borrow money. We knew-----

Senator Michael D'Arcy: Did you know how to analyse the analysis?

Dr. Michael Somers: Well, you mean in terms of the Merrill Lynch thing?

Senator Michael D'Arcy: No, in terms of what the markets were saying, what the credit default swaps pricing was?

Dr. Michael Somers: Well, yes, I mean we knew that the markets were spooked. That they were losing confidence and the Minister had complained to me a few times about the level of credit default swaps and he said to me, "Can you not go into the market and do something about this?" And I said to him, "How do you think I ... this is a market, I can't go in and influence this market. This is the view that other people are taking of us. This is what they're charging to insure our banks and it's not showing very much confidence in us." I mean normally, these credit default swaps wouldn't have cost very much I think. But when people begin to lose faith in you, then they don't charge you to insure.

Senator Michael D'Arcy: What stage were you aware of the worsening liquidity in relation to the financial institutions prior to September '08?

Dr. Michael Somers: When-----

Senator Michael D'Arcy: When did it come to ye?

Dr. Michael Somers: Well, the whole thing started in August 2007 when we started to take the money out of the banks and it was then towards the end of 2007 that we were getting these directions to place cash with the banks. So, it was a continuing cycle and didn't seem to be getting any better and ... I'm not sure that we saw where this was all going to end. The hope was, I suppose, that confidence would return to the markets and that the interbank market might start functioning again. But the difficulty was that we weren't the only country that was doing this. I mean the general attitude of people who had money, surplus cash, instead of putting into the interbank market was to take it out and put it into local, central banks. And then that, of course, resulted in a huge squeeze on liquidity and money just wasn't available anymore. Now, was that our problem? My attitude was that's not our problem. You know, we all look after what we're obliged to look after and the central banks can recycle the money and ... now, central banks were not very good at recycling the money, but there was no particular reason why they couldn't do it. And I think at one stage there was talk of some mechanism being introduced among central banks that would facilitate them in recycling liquidity but I don't know whether it ever actually came about.

Senator Michael D'Arcy: And what advice did the NTMA give to the Minister and the Government leading up to the liquidity crisis in the short period before the night of the bank guarantee?

Dr. Michael Somers: I don't recall giving them any particular advice. I mean, our concern was to safeguard the money that we had. As I say, we had the pension fund money and we had the cash that we'd raised to fund the Exchequer and, you know, what ... I'm not sure what else we could have said. You know, it's up to the Central Bank, as the lender of last resort, to go and solve this problem.

Senator Michael D'Arcy: And what's your own opinion in relation to the Central Bank's unwillingness to act as a lender of last resort?

Dr. Michael Somers: Well, they seemed to be running into trouble with ... they lent ordinary liquidity, and then there was a question of emergency liquidity, and the ... what was put to us was, I think, that they were up to their limits in terms of ordinary liquidity, and if they ... if they lent permanent liquidity, this would appear within - I don't know if it was weeks or a month or so - in some returns that would have to be produced and they felt that this would give alarm signals to the market, that people would realise that there was a problem with the Irish banking system if they were getting emergency liquidity assistance. Well, fine, there was a problem. We all knew there was a problem - so what were we playing at here?

Senator Michael D'Arcy: Can I ask you, Mr. Somers, you said in your opening statement, "Transferring them to NAMA [the loans] would be a bonanza for lawyers and other professionals, as well as requiring a large staff in NAMA." In the event, a very large number of loans were transferred at a substantial discount. Would you have acted differently? Do you feel the NAMA discount was appropriate? And were you requested to provide advice in relation to NAMA?

Dr. Michael Somers: In terms of would I have acted differently, well, I had in mind, as I mentioned earlier, a model of 30 to 40 people in the NTMA overseeing the process and putting pressure on the banks to sort out the problems rather than our take ... trying to take away these loans from the banks. Because, as I say, I felt that they knew where the bodies were all buried - we didn't. And we needed to put together a team to do this work and we didn't have a readily available team to do it, whereas the banks did have this team. And I felt that they'd created the problem. They knew what the problem was, they knew where the ... as I say, where the bodies were buried. They knew the individuals they were dealing with and I felt that they should sort it out.

In terms of the discount, I mean, there's no absolute value for anything. The price of anything ... the value of something is what somebody's prepared to pay you and if there's no money around, of course, the value of a product, whether its a house or a piece of land or whatever, is going to fall. So, in terms of the NAMA discount, I suppose I would have thought to myself, well ... I knew Brendan but I don't know if I said to anybody, "He's going to cover his back - he's going to impose whatever discount he feels is necessary to make sure that he, at the end of the day, doesn't end up showing a loss." And if I was in his position, I would have done the same thing. Now, whether they had the correct discounts or not, I don't know. I mean, I ended up then on the other side of the field as the State director with AIB and I was looking at this ... these discounts and I said, "God, these are enormous discounts. Are these justified?" And, of course, they were saying, "Well, they're not." And I said, "Well, why don't you challenge them then?" And they said, "Well, we can't challenge them [I think] 'til the whole process is finished." And I think they felt they were not going to win anyway. But that was it. And the problem was the discounts then, of course, impinged on the capital of the banks and we ended up then in a situation where, okay, NAMA was not going to make a loss but, on the other hand, the banks had to be recapitalised by the State, so we put it into one pocket and took it out of another pocket and handed it back to the banks to recapitalise them.

Senator Michael D'Arcy: And can I ask you about the €42 billion discount? How much of that will the State see back?

Dr. Michael Somers: You mean in terms of the ... well, sorry, what the State has seen back at the moment is ... I think it's got everything back from Bank of Ireland. AIB - there's €21 billion of State money in that. The bank is supposed to be worth €11 billion or €12 billion. I hope I'm not stray ... because I'm a director there and if I'm straying into stuff I shouldn't be talking about-----

Chairman: No, if you feel comfortable there, I know there are Central Bank rules on shareholders, but I think you're okay for the moment, Mr. Somers.

Dr. Michael Somers: Yes. Well, I feel ... in terms of AIB, the Minister has €3.5 billion of preference shares there, which he's getting 8% on. That's, what, €218 million a year. He has €1.6 billion in CoCos, these convertible shares, which he's getting 10% on, that's €160 million. So that's 400 and something million per year that he can get in interest out of the bank. Now, the bank is supposed to be worth €10 billion or €11 billion. It's not my decision, by the way, but if it was ... if I sold the bank ... and you sell it in a tranche, say, you sell 25% of the thing, you're going to have to sell it at a discount because people are not going to pay you the full value for, you know, the shares where the State is still a 75% shareholder, so you're going to have to ... because they don't know what you're going to do. So you're going to have to sell at a discount, so you're not going to get full value there. Now, as you sell further tranches, I suppose you'd get a bit more value. But even if you were to, say, to sell the whole lot today and you got, say, €12 billion, the ... as I understand it, the only thing you can do with that money is use it to pay down the national debt, you can't actually use it to spend on, you know, worthwhile projects. Now, if you use it to pay down the national debt, well, I think the ten-year rate on Irish Government bonds is about 1.7%. So that's just over €200 million that you'll save on interest payments on the national debt. However, if you don't do that, you can collect 400 and something million per year in interest, which you can do what you like with. You know, that comes in as general Government revenue as far as I know. Do what you like with it. And you also still have your investment of €11 billion or €12 billion, which hopefully will go up over the years and maybe, with a bit of luck, you might get close to the €21 billion. But, I mean, if you do it today, if you had to have a fire sale of AIB today, I suppose you'd get half that and then you have to ... then you crystalise the loss of €10 billion.

Chairman: I'll have to come in on that now because we could have a run on AIB in a moment if I let you continue anymore.

Dr. Michael Somers: Sorry.

Chairman: It's okay. So, Senator D'Arcy.

Senator Michael D'Arcy: Yes. Can I just ... the NTMA, the payment structure for staff is outside the public service model.

Dr. Michael Somers: Well, I mean, I've been beaten up for ... on the public accounts committee for this for years and years and years. Why ... what was our pay model? When the NTMA was set up, it was set up because we could not hold staff. By the way, I was secretary of the Department of Defence. I was enjoying myself over there, you know, it was a boy scout's dream - best job I ever had. The Government changed in 1987 and I was hauled back to the Department of Finance to, as Mr. Haughey said it, you know, he knew something about financial affairs, we've got to get this scene in order. Now, you actually couldn't get staff into the place on the pay rates and you ... anybody who knew anything about the financial affairs then left, they went off to brokers, banks, whatever. They left. We were playing against the best in the world. We were borrowing in every currency that you could imagine because we had Irish pounds, you couldn't borrow very much in Irish pounds, we were borrowing Kuwaiti dinar, dirhams, yen - everything. It was quite a tricky business because you had to have some knowledge of the capital markets of the world and we did not have that expertise in the Department of Finance.

So we were playing against the Goldman Sachses and the Merrill Lynches and everything else and the general view was we were losing. That we were not getting the best deals. And the Government of the day said, "Okay, if you can't beat them join them. We'll set up the NTMA." And Albert Reynolds was very clear about this in the Dáil, that, "We'll pay whatever it takes to get the best because no matter what we pay people, it's still a fraction of what you can gain or lose by a good decision compared to a bad decision." So I hired people in on the basis of a basic rate of pay and a performance-related bonus and a car and, I think, VHI. Now the car, because of the BIK thing was a questionable thing. And we hired people in and we, you know, we got the debt, I think, under control - at lease we got the interest bill under control. And gradually, then ... I was approached by Dermot Gleeson then, who was the Attorney General, and he said to me that the whole question of people suing the State had got out of control. We had the question of the Army, I think virtually the whole Army sued for deafness and it was not well-handled. And there were other cases coming up - I mean, there was asbestosis and all kinds of things coming up - and he came over to me and he said, "Could you fellas set up some sort of an organisation that would pay people and not have the State ripped off?", because he said he saw it on both sides; he saw it, you know, claiming on behalf of people and then, as Attorney General, trying to defend the cases. So I said, "Well, I know nothing about it", and he said, "Well, you're the only ones that have the commercial capability because you can hire people in and you can pay them". So anyway he ... that Government lost office then and then it went onto David Byrne, who became the new Attorney General, I said to him, "Do you want to proceed with this?" and he was very enthusiastic. And he went off as EU Commissioner ... so he was ... sorry?

Senator Michael D'Arcy: I'm aware that the-----

Dr. Michael Somers: Yes, sorry. Okay, well, sorry.

Senator Michael D'Arcy: The question I'm asking you is-----

Dr. Michael Somers: The model? Where people paid for-----

Senator Michael D'Arcy: The question I'm asking you is, should that NTMA model be used in other areas, financial regulation or in the Central Bank, to get the best of the best?

Dr. Michael Somers: Well, there were huge amounts of money at risk here and I ran a very tight ship. I mean, I'd 169 people, so-----

Senator Michael D'Arcy: I'm asking you should it be, should it be-----

Dr. Michael Somers: I wouldn't do it with huge numbers of people, I'd do it with a small number of people. Because that's the way you incentivise people, everybody had their objectives ... they were all measured against their objectives. The jobs were benchmarked against private sector jobs by Mercers and we were given the quartiles, deciles everything else and we were given how we should structure bonus schemes. And I mean I, sorry ... I mean, I'm a believer in the bonus ... look you have to incentivise people.

Senator Michael D'Arcy: But would you use it in other crucial sectors?

Dr. Michael Somers: I would, but I'd do it for a small number of people.

Senator Michael D'Arcy: Okay that's fine, I just wanted to hear your view on that.

Chairman: Thank you very much Senator. If I can maybe deal with one question myself there Mr. Somers, or Dr. Somers before we move on ... and this comes back to your witness statement there where under the C3(c) heading, the "Effectiveness of reviews of banks' loans books and capital adequacy", and you give a very strong line there when you said that when you saw the PwC review of the banks' loan books:

> At that stage the damage had been done and the only question was the scale of the disaster. The early review underestimated the size of the ultimate losses; much larger State support was later required.

If you could maybe outline for the committee, Mr. or Dr. Somers, your view on the scale and type of lending by financial institutions in the PwC reports you reviewed.

Dr. Michael Somers: Well, I was kind of aghast at it, when I saw the amounts of money that had been lent to the top 25 individuals. We were out borrowing money to run the country in amounts as low as €100 million, and we did not find the Irish banks very helpful to us. AIB had pulled out ... that they were originally ... we used to, we used to have two ... the two main banks were market makers, AIB and Bank of Ireland. Bank of Ireland got rid of their market making onto Davy Stockbrokers and AIB, in the middle of an auction, pulled out of market making, which I was furious over. And then when, you know, we were relying on foreigners to make the market in Irish Government bonds, apart from Davy's in Dublin, they were the only Irish ones that were doing it. But when I saw the amount of money that they had been lending to these other people and we were out, as I say, scavenging, looking for €100 million here and €100 million there to keep the ship of State afloat, I was flabbergasted by it. Now, admittedly we were not, we were paying as little as we could get away with, they were, the other boys must have been paying up or something. But, I found it absolutely astonishing, and by the way, these weren't to mega-companies or anything, these were frequently just to individuals or individuals who had formed themselves into a company.

Chairman: And would that individual be the type of person you described a while ago who had 3% of borrowings to the size of GNP ... that's the type of loan you're talking about?

Dr. Michael Somers: Well, when I, yes ... they were the people who had the billions.

Chairman: What bank was that by the way?

Dr. Michael Somers: Well this was the amalgam-----

Chairman: And that person that had the 3%, what financial institution was that?

Dr. Michael Somers: It wasn't from one, it was the totality from all the banks and one of the things I couldn't understand was, how each bank could lend to these people, because I presume each one was looking for security, so whether the same security was doing the rounds-----

Chairman: Cross-securitisation, is that what you're suggesting?

Dr. Michael Somers: No, I'm ... I wonder did the banks take proper security for each of the loans that they were lending or-----

Chairman: Moving that point on, Dr. Somers, was the NTMA involved in any loan book and capital adequacy reviews of the PwC report's output?

Dr. Michael Somers: No, I mean, we read what we got ... we read the requirements for additional capital for the banks but ... we didn't have any particular input into it. I mean , it was what it was.

Chairman: And did you have an opinion or did you agree or disagree with the course of action taken by the Government and what action did the NTMA take themselves in that regard?

Dr. Michael Somers: Well, in terms ... the Government decision really was to recapitalise the two main banks by putting preference shares into it and we took the view ... well the National Pensions Reserve Fund Commission, of which I was a member and which also ... I mean, it was an independent body and it was given huge independence by Charlie McCreevy to do what it felt was correct. But the obligation on it was to maximise the return on that fund because it was supposed to meet a substantial portion of the pension liabilities and no money was to come out of it before 2025. And that was all laid down in law. So we ... when the Government said, "Okay you've got to put money into preference shares", the view of the commission was that is not a good investment so we can't do it. And they had to change the law, and they changed the law to provide that they could give us ... that the Minister could give us a direction to put money into preference shares in the banks, so we did what we were told.

Chairman: And to come back to my earlier question, would the NTMA have taken other actions if the Minister had given it an appropriate mandate in that area?

Dr. Michael Somers: In terms of?

Chairman: In terms of what I was saying about the PwC reports and then the subsequent Government action taken in that regard.

Dr. Michael Somers: In terms of putting money into the banks?

Chairman: Yes.

Dr. Michael Somers: Well, if it was up to us, we wouldn't have put any money into them because that was not our remit. The legal obligation on us was to maximise the return we could get on the pension fund and we did not see putting money, putting €3.5 billion ... first of all, we would never have put a sum like that into any entity. I mean, we had the pension fund well spread over all kinds of asset classes. There was no way we'd put €3.5 billion into anything. But we certainly wouldn't have put €3.5 billion or anything approaching it into an Irish bank at that stage.

Chairman: Thank you, Dr. Somers. Senator Marc MacSharry.

Senator Marc MacSharry: Thanks. Welcome, Mr. O'Brien, thank you. Can I ask you ... Mr. Somers, sorry, it's that time of day isn't it. It's usually the Chairman that mixes up the names by the way. Can you comment on the NTMA's assessment of the domestic standing group's work when you joined it? What was your view on it?

Dr. Michael Somers: Well, I'm not sure whether we were ever actually formally members of it. But the only reason that we attended any of those groups was because we had the cash and we were only asked each time "What ... how much money have you got and will you not put it into the banks?" I mean, it was a mantra that came out at every meeting. And I think it was Brendan McDonagh said, "Maybe they thought they'd wear us down on this", or that we'd give into pressure or whatever. But we weren't giving into pressure. I said, "That's our position and we weren't going to-----

Senator Marc MacSharry: Your advice wasn't being sought on other matters?

Dr. Michael Somers: Not really and I didn't mind that. I mean, I did write to the Minister that ... about something or other and I said, "Look, you don't have to tell us everything and we accept that you may wish to keep things confidential and not let us in on them - that doesn't bother us. We can get on with doing our business, you don't have to tell us, we're trying to do what we're mandated to do. There are other people - the Department of Finance and the Central Bank who are the people responsible for all this, we're not."

Senator Marc MacSharry: Was there a very, kind of, pigeonhole situation to the domestic standing group that everyone had their pigeonhole and you didn't veer outside it or was there an open flow of information where people threw views around even if it wasn't their specific area?

Dr. Michael Somers: Well, the view ... in terms ... I didn't attend, by the way, all the meetings because either one or two of us, of the four of us - because as I say we all had other full-time jobs to do - we would have attended the sessions, so we ... there wasn't a great continuity. But I mean the message all the time was the same to us, to put in cash. Now they would ... there usually was a tale of woe that the deposits were flowing out of the banks and how fast they were flowing out and then sometimes there'd be good news-----

Senator Marc MacSharry: From the beginning of 2007 when you started?

Dr. Michael Somers: It was mid-2007, yes. Now sometimes there'd be good news.

Senator Marc MacSharry: And was the data that they were getting, in your view, was it of a sufficient quality and accuracy to identify critical risks?

Dr. Michael Somers: Well, we wouldn't have known about the accuracy of it. I mean, this would have been provided to ... well, we'd be sitting round a table and the figures would be provided generally by the Governor or the director general of the Central Bank who would tell us what ... whether money had flowed in or flowed out, and it was usually flowing out and the question was: is it going to continue or was there any good news? Is there any chance that this money might flow back in again? It was generally a discussion just about the liquidity of the banking system and how close they were to providing emergency liquidity. And there was always this spectre of the ECB in the background and I suppose at what stage would they get fed up with this and-----

Senator Marc MacSharry: You mentioned earlier about never being happy or confident about Anglo. Is that correct, or is that fair to say?

Dr. Michael Somers: That's fair, yes. I suppose our happiest position would have been to have no exposure to Anglo but we did agree with them, when they got an upgrade - I think it was a short-term upgrade - from one of the credit rating agencies that, sort of, brought them into the parameters where we said we'd lend money, that-----

Senator Marc MacSharry: How far back did that view go with you? I mean, did it go back ten years, the '70s, six months?

Dr. Michael Somers: We had no dealings with Anglo. I mean, it wasn't within our ... the range of any outfit that we ever wanted to do business with. It would have come into our sights, I suppose, when the credit ... when they started looking for money from us and I can't remember how far back that was. See, we always maintained as much cash as we could because I saw what happened to the South American republics in the 1980s. They were not in the high ... they were nothing like as indebted as we were. But the problem they ran into was one of liquidity. They left their ... they didn't pre-pay loans or anything. So ... and when a year would come up, they'd have not only the borrowing requirement for that year to meet but they'd also have all the repayments of loans in that year. Now, we saw what happened to them so our policy was ... sorry, I'm digressing slightly but just to try and answer the question for you. Our ... we used to try and pre-pay loans one to two years before they matured so that, say in year ten, when that came up, we would have actually pre-paid that loan in year eight. So when it came to year ten, all we seemed to have to do was to borrow for the borrowing requirement of that year and maybe not even that much because we would have pre-borrowed. And then in that year, we'd say, "Okay, all we need is the money for this year or some of the money for this year", but we would also, without necessarily advertising the thing, borrow other money and we'd try and pre-pay other loans that were coming up in the next couple of years so that we didn't get hit for any huge amount of repayments in any particular year. So the result was, we built up a pot of cash and that cost us money because we had to pay interest on it. And we tried to alleviate the cost of that by place ... if we placed it with the Central Bank, we'd get a certain rate of return - not much. If we placed it around the market, we'd get a slightly better rate of return. On the other hand, we were not prepared to take any undue risk with that money.

Senator Marc MacSharry: Any undue risks, yes. So you felt that Anglo was a risk?

Dr. Michael Somers: Yes.

Senator Marc MacSharry: And did you say this at the domestic standing group? Did you say, "Look, lads, we're not going near-----

Dr. Michael Somers: They were well aware of it. They were more than well aware of our position.

Senator Marc MacSharry: And would they not have said, for example, "Look, Dr. Somers, what are you worried about? What's the problem? Are they not as good as AIB or Bank of Ireland or a credit union or whatever?"

Dr. Michael Somers: I didn't care what they said. I said, "That's our view."

Senator Marc MacSharry: I'm just trying to get a picture of ... were they saying ... you know, you were implying, "Look, I don't want to put money there". Were they blindly going, "Right so", without asking, "What's the problem?"

Dr. Michael Somers: I don't think they had the view of Anglo that we would have had. I think they saw it as another institution. Now, maybe they did and they wouldn't have necessarily shared it with us but, I mean, our position was quite clear: we were not comfortable with the model.

Senator Marc MacSharry: Mr. McDonagh said you were not comfortable with the model of Irish Nationwide, either, would that-----

Dr. Michael Somers: Yes. Well, we never gave them anything.

Senator Marc MacSharry: You never gave them any money. And no credit line either, it seems.

Dr. Michael Somers: No, no.

Senator Marc MacSharry: Had you the same kind of view of those?

Dr. Michael Somers: They didn't even come within the radar screen. I mean, we just-----

Senator Marc MacSharry: And in terms of deposits, you went commercially wherever you felt safest and wherever you got the best return.

Dr. Michael Somers: Yes.

Senator Marc MacSharry: And did that include other Irish banks like AIB and Bank of Ireland?

Dr. Michael Somers: Oh, it did. I mean, we had deposits with ... we had ... there were about 100 banks that we had credit lines with and we reviewed those formally every year and any information ... you know, we would decide in respect of each of them how much we would place on a short-term and a long-term basis.

Senator Marc MacSharry: Right. You said earlier on that the pressure for putting money into banks ... was, kind of, Central Bank and Department of Finance - more Department of Finance than Central Bank. Was there any sense of political pressure from the Taoiseach or the Minister or Cabinet or-----

Dr. Michael Somers: Well, the Ministers would have gone along with what they were saying and I do remember-----

Senator Marc MacSharry: I appreciate that they would have gone along with it but, I mean, did you feel ... was this a political agenda at all or was it just the Government saying, "Look, I met Anglo the other day. They need deposits, put some in".

Dr. Michael Somers: Well, I remember at one particular meeting - and I can't put a date on it but it was in the Taoiseach's Department - the Taoiseach was there, the Minister for Finance, and a whole raft of others-----

Chairman: Which Taoiseach was that?

Dr. Michael Somers: Brian Cowen. And the pressure came on us to put money ... the Minister for Finance wanted me to do something ... put money somewhere or other. And I said to him, "Look, you know my position. I'll only do it if you give me a direction". "Ah, look", he said, "come off it, Michael, come off it." And I said to him, "Look, I'm telling you what my position is. I'm not doing it unless you give me the direction." So that's where it stood and I mean-----

Senator Marc MacSharry: When would that have been?

Dr. Michael Somers: I mean, I'm mentioning it. I don't know. It was-----

Senator Marc MacSharry: Would it have been more August 2007 or August 2008?

Dr. Michael Somers: No, no, it was way, way after that. Way, way after that.

Chairman: It was May 2008 onwards.

Senator Marc MacSharry: Of course, sorry.

Dr. Michael Somers: Yes, yes.

Senator Marc MacSharry: It was late enough in the day. So, you had been articulating a position where you had concerns for the safety of State funds if they were put into Anglo Irish Bank and that would have been summer 2008, say?

Dr. Michael Somers: Sorry, when I was concerned?

Senator Marc MacSharry: Yes.

Dr. Michael Somers: I was concerned all along but-----

Senator Marc MacSharry: But I'm thinking about this exchange in the Taoiseach's office ... with the Minister and the Taoiseach.

Dr. Michael Somers: I don't know. I mean, if I got a list of all the meetings, I probably would be able to identify it because there was also a row, I think, between ... maybe I shouldn't go down this road but ... there was another row that went on which didn't involve me where an individual was being pushed into a certain direction and he wasn't going.

Senator Marc MacSharry: Who was?

Dr. Michael Somers: Will you stop me if I'm-----

Chairman: I will.

Dr. Michael Somers: -----out of order?

Chairman: You can use just general terms at the moment. We can see if it needs to get specific then, Mr. Somers. Go on.

Dr. Michael Somers: This was to do with a specific appointment to a certain bank.

Senator Marc MacSharry: Right.

Dr. Michael Somers: And pressure was being put on the individual to agree to this appointment and the individual said, "I'm not agreeing to it". So, I mean, it was a, kind of, a ... that's why I say I-----

Chairman: Coming where? Politically or?

Dr. Michael Somers: Politically, yes. Politically.

Chairman: From Cabinet or-----

Dr. Michael Somers: It was with ... in the presence of Ministers-----

Chairman: And what period was this, Mr. Somers?

Dr. Michael Somers: It was probably late 2008, early 2009.

Chairman: Okay.

Dr. Michael Somers: As I say, I'm hopeless at dates, you know.

Chairman: I suffer with that myself. That's fine. Just to wrap up there, Senator MacSharry.

Senator Marc MacSharry: Just to finalise things, was there no system formally where the NTMA could raise concerns with the Central Bank, the Minister, the regulator and say, "Look, we have concerns about A, B or C", or did everyone stay within their pigeonhole?

Dr. Michael Somers: Well, I mean, I was very clear on my position. I had borrowed money to run the country to pay the bills at the end of the week and I was not putting any of that money at risk, you know, for no other reason than to protect my own head. I had raised money. As I say, I signed endless documents certifying why I was raising it. It was raised to fund the Exchequer, etc. Sorry.

Senator Marc MacSharry: Just one very last one and it's on a different subject. Perhaps some of the other questioners can tease it out a bit better. You mentioned the day that we had Mr. Trichet over and I'm sure we were all conscious of the first name terms, kind of, introduction that you gave on that day. Having known him over the years, did he ever lift the phone during the crisis and say, "Dr. Michael, what do you think about this? Are Anglo basket cases or, you know, should we burn bondholders or make sure they don't", or anything along those lines?

Dr. Michael Somers: No, he didn't and I'm glad he didn't.

Senator Marc MacSharry: Okay.

Chairman: I'm going to propose that we just take a very short comfort break for about three minutes at which time we'll actually resume and in doing so, just remind the witness that he's still under oath and that if you wish to talk to your counsel during that time, you can. This is a three-minute comfort break. Thank you. Okay. Suspend.

Sitting suspended at 7.29 p.m. and resumed at 7.33 p.m.

Chairman: We are now back in public session with Dr. Somers. Dr. Somers, maybe if you could just clear up that matter who is-----

Dr. Michael Somers: Sorry, which matter is that?

Chairman: Were ... can you just clear up the matter of which financial institution that was and what director was it? Was it a public interest director or was it ... the appointment ... you were on about the appointment of a director to a bank?

Dr. Michael Somers: Oh, no. This was the question of appointing a senior person to a bank.

Chairman: Right, okay-----

Dr. Michael Somers: And the ... well, I can tell you what-----

Chairman: Yes-----

Dr. Michael Somers: I can indicate to you-----

Chairman: -----quickly and we'll just move on because we will get it dealt with when we get it. What was the financial institution and who was the person?

Dr. Michael Somers: Well, the ... it was the question of an appointment to Anglo which had to be approved by the Financial Regulator.

Chairman: At what date?

Dr. Michael Somers: By the Financial Regulator.

Chairman: At what date, at what period?

Dr. Michael Somers: Well, to be quite frank with you, Chairman, I am hopeless on dates. I ... you know, I'm sorry I-----

Chairman: Prior to the guarantee or post-guarantee?

Dr. Michael Somers: Oh, it would have been post-guarantee.

Chairman: Okay. Right, I'll park it there so, thank you. Right, the next questioner is Deputy John Paul Phelan.

Deputy John Paul Phelan: Thank you, Chairman, you beat me to it. Can I welcome Dr. Somers. A few things that have come up from other questions that I just wanted to ask you. Actually, initially, it's been covered on and off in the media for many years that the NTMA had a somewhat, at times perhaps, uneasy relationship with the Department of Finance and with, maybe, other agencies like the Central Bank. Was that the case? And you were there from the start. Did the relationship change over the years?

Dr. Michael Somers: Well, it depends how far back you want to go. I suppose I was always a bit contentious in the Department of Finance. I'd different ideas about how things might be done. And it went back ... I was a young fella in the Department of Finance. There was the trade unions and the staff associations wanted to set up a widows' and children's pension fund, and the Secretary of the Department, Dr. Whitaker at the time, and Mr. Haughey, who was the Minister, were all in favour of this. The Department was opposed to it. And I got ... I was working in the pension sector at the time, and I got involved in it, and I thought it was a good idea. And I ended up - I was 26 or something - I ended up as the main negotiator in this thing and cut a deal, and I got to know Mr. Haughey quite well at that stage, and would have discussed the terms of the deal with him, and would have agreed terms with him, which the Department did not necessarily approve of. But, I mean, we got the deal done, it's still there, by and large, for the whole public sector.

Now, at the end of it Dr. Whitaker was going down as Governor of the Central Bank, and he brought me down for two years, so I escaped the wrath of the place for two years and then I went back again. And I suppose I ... well, I had my own ideas about how things should be run. Then I left, and I became Secretary of the Department of Defence and then, when I was brought back there was fury over it and I was, kind of, parachuted in and ... to try and do something about the debt. And it did not go down well. And then we set up the NTMA and there was fury over that, and ... I mean, there was an allegation made, I think before this committee, that somehow or other I had, when I set up the NTMA, I denuded-----

Chairman: Finance Committee or this inquiry, this committee?

Dr. Michael Somers: No, I think it was this committee.

Chairman: Okay.

Dr. Michael Somers: Mr. Wright, the Canadian gentleman-----

Chairman: Yes, indeed, yes.

Dr. Michael Somers: -----who I think suggested that I had denuded the Department of economists. And I actually wrote a letter to the paper, because somebody drew my attention to this thing, and said, "You shouldn't let this thing go, you know, without any challenge because it looks as though you've ... you're the cause of the Department of Finance." I think he suggested that the Department was not in a position to deal with the crisis when it occurred because the NTMA had taken the economists out of the Department. Now, in fact, there was a 15-year gap, and I didn't take any economists out of the Department of Finance. I took ... 25 people decided to follow me, and they took a ferocious risk in doing it, because they were warned that if they joined me in trying to set up the NTMA, they had to resign as civil servants and there was no coming back and they'd be out on the streets. They said I'd fail, and they'd be out on the streets within a year. But none of them were actual economists. We took, I suppose, a high-profile activity out of the Department of Finance. We were being paid more than they were being paid, we operated a different model. I mean, we operated a professional model. We hired in an awful lot of professionals.

Deputy John Paul Phelan: I'm not trying to cut you short, but my-----

Dr. Michael Somers: Sorry, yes, sorry.

Deputy John Paul Phelan: -----my ... I'm ... nearly half of my time is gone. I could listen to that all day, but I just want to put it to you: did that continue, you know, did that change when you ... by the time you left in 2009, had those relationships improved? Or was there still a lingering issue?

Dr. Michael Somers: You mean when I left ... when I left the NTMA in 2009?

Deputy John Paul Phelan: Yes?

Dr. Michael Somers: No, it, by and large ... well, did it improve? It was, kind of, still there. You see, I got written into the legislation, because when I was secretary of the Department of Defence I discovered the military chiefs reported directly to the Minister, not through the Department, under the Defence Act of 1954, and I copied that in the NTMA Act, that the chief executive reported directly to the Minister. So I would insist on seeing the Minister myself without any civil servants present, and that annoyed them intensely. But, I mean, I couldn't get anything done otherwise.

Deputy John Paul Phelan: Okay. Can I ask just briefly ... you spoke about the cost, you yourself inquired as to the cost of insuring the €40 million deposit in Anglo. Can you remember what it was, and really, for comparative terms, how much you would have expected it to be and what the difference was?

Dr. Michael Somers: I'm guessing to some extent. I've a figure in the back of my mind of about 4%.

Deputy John Paul Phelan: Okay. And what would you have expected?

Dr. Michael Somers: Half maybe.

Deputy John Paul Phelan: Okay. You were offering ... the legal advice which you referenced earlier you are going to be providing, I think ... did you say that to the-----

Dr. Michael Somers: I'm quite happy to ... for ... the NTMA have some objection to this. Now, I actually spoke to the ... sorry, I'm in order here or am I not?

Chairman: Okay, just proceed for the moment and we'll observe, and continue, Mr. Somers.

Dr. Michael Somers: Yes, okay. Sorry, Deputy?

Deputy John Paul Phelan: I just, well, I was asking ... I was going to ask who provided the legal advice?

Dr. Michael Somers: Well, I'll tell you. It was Paul Sreenan, senior counsel.

Deputy John Paul Phelan: Okay, that's fair enough. And I think there's going be some tick tacking as to whether we can have it, okay. I want to ask, in relation to your opening statement, you said in it that you, and I'm quoting directly, you became "somewhat perplexed at the very rapid growth in credit and on one occasion spent some time going through the Central Bank statistics to try to understand it". Can you recall when that perplexion hit you?

Dr. Michael Somers: Well, what we used to hear was that the credit in Ireland was growing at, every year, 20%, 25%, 30% per annum. And the economics, such as I could remember them - and I suppose it was Milton Friedman stuff - was and I'm sure Senator Barrett will correct me if I'm wrong on this, that you generally expected that the monetary aggregates would grow more or less in line with nominal GNP. But here we had this fantastic situation where the Irish monetary aggregate seemed to be growing at multiples of nominal GNP, at 3%, three, sorry, three times. And we used to muse about this in the NTMA, we'd say, well, and I ... my successor actually quoted at the recent ... at some public accounts committee that he was at, he said that I used to say, "Well, either we've learned some new branch of economics and they're going to have to rewrite all the textbooks, or else there's going to be an almighty crash". Because, I couldn't see how the monetary aggregates could grow so fast. But, anyway, one day this ... this was bothering me and I got out a whole load of Central Bank reports and I went through them to see how was this credit being created. And the best I could do, because they're not, at least for me, they're not easy going, was that the Irish banks in respect of their Irish business had borrowed somewhere between €100 billion and €200 billion from outside the State, and I thought well this was a big risk area.

Deputy John Paul Phelan: I'm not trying to cut you short but I have a few more that I just want to get to. But, in terms of that concern, did you ... or, was there any vehicle for you to raise that concern?

Dr. Michael Somers: No, I did, I raised it with the then secretary of the Department of Finance. I said, "This is extraordinary stuff." And he said to me, "You're not listening to the Governor of the Central Bank, the Irish banks are well capitalised, they've been stressed tested, what are you on about?" So, I said, "Well, maybe I'm wrong."

Deputy John Paul Phelan: Okay. Thanks for your candid answer. Again, you said something similar in your statement about the levels of house building and construction and that they were unsustainable by any measure. Again, did you have an opportunity or any mechanism for raising those concerns?

Dr. Michael Somers: I spoke to ... well, I knew the former Taoiseach, Bertie Ahern, quite well and I used to talk to him every so often. And we would have discussed what was going on in the country. And one of the issues was this idea of building 90,000 or 100,000 dwellings every year, it wasn't sustainable. I mean, he accepted that it wasn't sustainable. And he was very concerned about it. But, I mean, the problem is you're on roll here, and how do you stop it? And he had hoped, and I hope I'm not putting words in his mouth here, but he had hoped that the reconstruction of the whole centre of Dublin, the Carlton site and everything that went on around there, would absorb some of the workers that could not be employed anymore in building dwellings, because we just had too many dwellings. And there was a huge plan to redevelop that whole area and the Arnotts site and everything else and he thought that might take some of them. But it wasn't the full solution. But it wasn't as though people were unaware of it. But I mean, it was just, kind of, a fantastic amount of building. I mean, we were bringing in people from outside the country to build houses for them to live in, and the Irish people buying them as an investment. It was, sort of, extraordinary.

Deputy John Paul Phelan: Just a little rewind. Which Secretary General did you raise the concern on credit?

Dr. Michael Somers: David Doyle.

Deputy John Paul Phelan: Okay, thank you. And finally, can you advise the NTMA investment mandate that was held, and what the NTMA were authorised to invest in? This is a very general question now that I've been given ... I suppose, what they were authorised to invest in by amount, country, currency, tenor, asset, product and counter-party rating. Now, I would suspect it's one of the prepared ones-----

Dr. Michael Somers: Are you talking, Deputy, about the the pension fund or-----

Deputy John Paul Phelan: No, I suppose in general. That's actually a general ... it's a general question.

Dr. Michael Somers: Well, I mean, you ... you're talking about the money we had ... the cash we had for the Exchequer? No, the only thing we could invest in were banks. And we had guidelines every year ... directions, guidelines from the Minister for Finance which laid down, "Look you're not to invest in banks with a lower credit rating than AA", and such like. Apart from that we had, kind of, general discretion and we had about 100 banks in our sights. And we would have evaluated about 100 of them and we'd look around to see what one would give us the best rate of interest.

Deputy John Paul Phelan: And the pension fund mentioned, was-----

Dr. Michael Somers: The pension fund was entirely under the control of the pension commission which was given, by Charlie McCreevy, complete independence to get the best rate of return and they ... I mean, I outlined in my speech there the, kind of, areas ... we were looking at everything because we wanted to spread the risk of this, get the best possible rate of return with the lowest possible risk and I mean, this was, kind of, nightmare stuff, trying to get this.

Deputy John Paul Phelan: One little brief supplementary, following on from Deputy McGrath's question earlier on about our exchange in the Royal Hospital and the €60 billion that you were sent to find.

Chairman: You're way over time. You have to make it quick. Ask a question.

Deputy John Paul Phelan: I was under the impression that the establishment of NAMA was of the order of half that €32 billion in NAMA bonds as collateral. Where does the €60 billion? I am just trying to get that figure.

Dr. Michael Somers: That was probably the figure that it looked like. It was an evolving situation and it could have been €50 billion or €60 billion, depending on the discounts that NAMA imposed on the loans and I suppose I was told to look for the maximum in the worst-case scenario.

Deputy John Paul Phelan: Best or worst-case scenario.

Chairman: Thank you very much. Deputy O'Donnell, last questioner, and then we will move to wrap up.

Deputy Kieran O'Donnell: Welcome, Mr. Somers. Can you advise the rationale as to why Merrill Lynch were appointed on 24 September 2008 to advise on liquidity and strategic options available to the Government, given the proximity to the issuance of the guarantee just five days later? What was the critical factor that spurred Merrill Lynch's appointment? And what individuals or institutions made that decision?

Dr. Michael Somers: The Ministers of the Department of Finance or wherever decided that they needed professional advice from some institute or some investment bank and they came to us to do it. Now I think I explained to him I was unhappy because they stuck us with a bill and they didn't want to pay the bill.

Deputy Kieran O'Donnell: So you were the petty cash for the paying the consultants.

Dr. Michael Somers: It cost us €6 million and I was beaten up by the public accounts committee over spending that money.

Deputy Kieran O'Donnell: So purely it was down...they needed funding.

Dr. Michael Somers: No, they wanted it and okay, fine, we were happy to assist in that.

Deputy Kieran O'Donnell: Was the only reason that Merrill Lynch-----

Chairman: Initial question asked first, Deputy, and then we will move on to that, okay. The initial question as to the rationale as to why you had them appointed.

Dr. Michael Somers: Why we chose Merrill? Well, my colleague, John Corrigan, whom, I think, you are seeing next week, he looked around to see who could we get that wasn't already conflicted because the Irish institutions had all hired their own advisers, etc., and the only ones that had not been hired for something were Merrill Lynch and there was some difficulty in trying to get Merrill's. And we ... for whatever reason, I seemed to contact Bill McDonough about it who had been president of the New York Fed and he was able to put some pressure on them. Anyway, they came in. It wasn't a question that we had a huge choice. They were the only ones. Now, why was it done in such close proximity to the guarantee? Well, when we hired them, we didn't know that guarantee was going to arise. I mean, I had no idea that weekend that this crisis was going to suddenly arise on Monday because, as I said, John Corrigan and I, we were booked on a 10.30 flight on Monday morning out of Dublin. We could very easily have cancelled that but we had no indication in the wide earthly world that this was ... I mean, there was a crisis every week but so what?

Deputy Kieran O'Donnell: When did you fly out?

Dr. Michael Somers: Monday the 29th.

Deputy Kieran O'Donnell: But there was discussions ongoing prior to that. Like we see various memos, 25th and that. Were you contacted by Government at any stage to say, " Look, there's a problem happening here?"

Dr. Michael Somers: No, I mean, nobody contacted me. If they had, I could have very easily cancelled the thing. I'm not sure, by the way, even if I was around that I would have been able to do very much because Brendan McDonagh, he was just left outside and that's probably where we would have been too.

Deputy Kieran O'Donnell: You made reference there before I go, just to conclude. What was the trigger that spurred the Minister for Finance asking, at that particular time, for you to hire Merrill Lynch? When were you asked to hire them?

Dr. Michael Somers: We were probably asked to hire them a few days before, or a day or two before we actually got them.

Deputy Kieran O'Donnell: Do you know what the spur was?

Dr. Michael Somers: I think the spur was that everybody else seemed to have their financial advisers and he felt that the Department of Finance should have their financial advisers as well. I mean, they met with the Department of Finance, we weren't present at some of those meetings and I think Brendan McDonagh said that. They were very much hired as their advisers, not as our advisers. I mean, we-----

Deputy Kieran O'Donnell: You were just a conduit in terms of funding?

Dr. Michael Somers: We were just a ... well, a conduit, I suppose, to make the contact and to fund the thing.

Deputy Kieran O'Donnell: And did they report to ... in terms of the reporting mechanism from Merrill Lynch, did they report to Brendan McDonagh?

Dr. Michael Somers: Oh no, they reported to the Minister for Finance, to the Department of Finance.

Deputy Kieran O'Donnell: And you spoke about not being part of the inner circle. What do you mean? Explain how that was.

Dr. Michael Somers: Well, the inner circle-----

Deputy Kieran O'Donnell: Who was in ... who was on the inner circle?

Dr. Michael Somers: Well, the inner circle was the Department of Finance, the Central Bank and sometimes the regulator. It wasn't clear the regulator was always part of the ... the inner circle because, I mean, I know, on that Sunday when we were sitting outside all day, the chairman of the regulator, Jim Farrell, was with us and he wasn't brought in either. It was the Department of Finance, the Central Bank, obviously the Government Ministers and the Attorney General. I mean, the Government Ministers ... well, it was the Taoiseach, Minister for Finance. Sometimes Minister Eamon Ryan would have been there as well and, as I say, the Attorney General. And ... but, I mean, I saw on occasion as well where the ... it was only the Governor of the Central Bank would be brought into meetings; his No. 2 wouldn't be included.

Deputy Kieran O'Donnell: And who would he normally ... when you say ... that would be with the Minister for Finance, is it?

Dr. Michael Somers: Minister for Finance ... or Minister for Finance and the Taoiseach.

Deputy Kieran O'Donnell: And the Taoiseach. And how did you find, in terms of your interaction with the various bodies, what did you feel was the contingency planning and the level of understanding by the Central Bank and the regulator of the state of the balance sheets of the banks?

Dr. Michael Somers: Well, I felt that they should know, they should understand it. I mean, this was their ... their business, their *raison d'être*, it ... they would have been in possession of all the figures, they ... presumably they knew that people ... I didn't realise that they knew as little as it appears they did know. I assumed that they were all over the banks because-----

Deputy Kieran O'Donnell: We had former Taoiseach Brian Cowen in before us and he said, on the night, that his advice was taken from the Governor of the Central Bank, that was the supreme advice he took on the night. Do you feel, from your knowledge, do you feel that they had a full handle, or not, on the state of the banks on the night of the guarantee?

Dr. Michael Somers: Well, I've no inside knowledge on it. I mean, I would hope they had but, I mean, I don't know. As I say, our interaction wouldn't have been great. We were, sort of, around there. We were the fellows with the bags of money, as they saw it, and we were brought in as-----

Deputy Kieran O'Donnell: And when the times were good, did they ... were you ignored?

Dr. Michael Somers: Oh yes, yes. I mean, we'd no role when times were good.

Deputy Kieran O'Donnell: And before the direction was issued by the Minister for Finance, in terms of directing you to put funds in the banks, was there ever a situation where previously such a direction took place?

Dr. Michael Somers: I don't believe there ... I'm trying to remember now. I don't ... no, I don't think there ever was. I mean, we got ... we got directions ... we got guidelines every year from the Minister and it was really, "Don't borrow more than 10% in yen or more than 5% in Kuwaiti dinars", or something like that. It was more like a risk ... what they call now a risk appetite statement. You know, "These are the parameters within which you're to operate and you're not to have ...", they'd tell us how much money we should have at the end of the year and the counter-party credit restrictions that would be on us, i.e., don't deal with banks that are dubious, etc. It ran to three, four, five pages or whatever.

Deputy Kieran O'Donnell: And when you, we'll say, you got the direction in 2007, late 2007, December, and then furthermore on ... in June 2008, in terms of being directed to put money in the banks, when you said to the Central Bank and the Department of Finance at the time that it was the role of the ... of the Central Bank to fund the banks, rather than the National Treasury Management Agency, what was the response?

Dr. Michael Somers: The response was that "We've lent ..." ... whatever they could lend under normal lending and they were afraid of this emergency lending because it would get out into the open and that we had all this cash. And my attitude was, "Okay, well, look, the cash is with you, you know, it's not floating around in thin air, it's actually with the Central Bank. So if you want to lend to the banks, you go and lend it."

Deputy Kieran O'Donnell: And the reaction you got back was ... is it that they were afraid to go to the ECB on it?

Dr. Michael Somers: I mean, it's very hard to know what motivates people. I think they felt the easiest thing would be if we'd go and lend it and that we were just being awkward about it and-----

Deputy Kieran O'Donnell: And you spoke about going to Trichet. Why did the Governor of the Central Bank accompany you to meet Trichet?

Dr. Michael Somers: I wondered about that. I think he was annoyed that I was going out to meet Trichet, who was his counterpart, and that ... well ... maybe he ... because I mean, I had a good relationship with John Hurley, by the way, but I wasn't foisting with him. In fact-----

Deputy Kieran O'Donnell: How did it arise that you were asked by the Minister for Finance at the time, was that------

Dr. Michael Somers: It was the Minister for Finance, Brian Lenihan asked me.

Deputy Kieran O'Donnell: Brian Lenihan asked you, yes. How did it come about then that the Governor of the Central Bank-----

Dr. Michael Somers: Somebody told him.

Deputy Kieran O'Donnell: And did he pick up the phone and ring you?

Dr. Michael Somers: I don't think so. I think I just discovered that they were coming as well then.

Deputy Kieran O'Donnell: You mean you met at the airport?

Dr. Michael Somers: No, I think I got some text message say ... or some e-mail saying that ... from the European Central Bank saying that Mr. Hurley, Mr. Grimes, I think it was, and Mr. Cardiff were travelling and were going to be met by cars or something to be ... they were organising their transport in from the airport and that I would be travelling on my own.

Deputy Kieran O'Donnell: And what was the sense of the meeting when you met Mr. Trichet? Like, what was the ... were you all in the room together?

Dr. Michael Somers: No, just John Hurley and myself, and Mr. Trichet.

Deputy Kieran O'Donnell: And how did the meeting go? What was the-----

Dr. Michael Somers: As I say, I knew him well so ... I was on very good terms with him and we swapped a few-----

Chairman: Final question, Deputy.

Dr. Michael Somers: -----swapped a few yarns and I said, "Well, this is why I'm here."

Deputy Kieran O'Donnell: If you ... if ... final question, really. If you were asked for your advice and you were around on the day of the guarantee, taking all factors into account, what type of configuration would you put on the guarantee in terms of timeframe, in terms of structure?

Dr. Michael Somers: Well, I would have looked to see what was the problem - is there going to be a rush? I mean, I don't know why, if its true, that the two main Irish banks were prepared to pony up €5 billion each, for whatever period, provided they got a State guarantee, I don't know why that wasn't followed. If that is ... and that ... I've been told that that's what the scene was. Now, how that changed from five or six in the evening to guaranteeing everything that moved by three or four o'clock in the morning, I don't know. And, as I say, I think its a bad idea taking important decisions in the middle of the night.

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

Chairman: Okay now, I have to close you down, please. Keep it short now ... and not an analysis.

Deputy Kieran O'Donnell: If the decision had been: what mechanism could have been put in place to defer, we'll say, the substantive decision until the following day?

Dr. Michael Somers: Well, I don't ... I could be wrong now in this ... my understanding of what drove this was a fear that Anglo would not have enough liquidity the following day, not that the other banks would not have enough liquidity. So I presume ... and, as I say, I could be wrong in this because I've no particular insights but I presume that if the other two had put up €10 billion between them, that that would have been enough to keep Anglo on the road and that the-----

Chairman: Okay. Deputy McGrath and then I'll just close-----

Deputy Kieran O'Donnell: Thank you.

Deputy Michael McGrath: Yes, thank you very much, Chair. Dr. Somers, you retired from the NTMA in December 2009? Is that correct? So, did you have any sense at that stage of the fact that, within a year, Ireland would end up in a formal bailout programme and what do you believe were the factors that led to that over the course of 2010? Given that you were there up to the end of 2009, did you see the inevitability at that stage of where all of this was going and what, do you believe, were the main factors that led us into a programme?

Dr. Michael Somers: I didn't. I never thought that it would happen. I mean, one of the nightmares for us for many years - because I was responsible for our end for many years - was the IMF. I mean, that was the thing. Actually ... because we would be writing memos to Government telling them to cut back on their expenditure. That was the bogeyman that we held up, "Listen, if you don't behave yourselves and get your finances under control, the next thing is we'll have the IMF in here running the show for us." So, for me, I felt it was the ultimate humiliation actually for us, as a country, to have the IMF come in to run the show for us. Why did it happen? You know, we had three years warning of this thing. This all started in 2007 ... August 2007. And the bailout thing eventually occurred in ... three years later in 2010. And you'd say to yourself, "Well, could we have got our act together better? Could we have sold ourselves better or whatever in the meantime?" I mean, we had been ... my colleagues and I, we had been through worse crises in the 1980s where our debt was enormous and, you know, we got through it. We tapped every bank in the world for a few bob and none of them knew that we'd tapped the other fellas. So we'd a vast number of very small loans and suddenly we'd a big load of cash. And that gave great confidence then. So what happened, you know, between my leaving and the collapse ... I'm not saying, by the way, if I was around that it wouldn't have happened. It probably would have happened anyway. But-----

Deputy Michael McGrath: Do you still believe, Dr. Somers, that the operation of NAMA played a significant role in Ireland entering into a programme? You wrote an opinion piece in November 2010 on *The Irish Times,* which was really scathing of NAMA. So ... and you actually said, "What was really brought us to our knees as a country is the inevitable but calamitous consequences of working the NAMA project." You say:

> Namaism [as you called it] has created a monster that has done the opposite to what was intended. With its haircuts and discounts and its immediate crystallisation of losses, it has wrecked the balance sheets of the banks and has ensured that there will be no net new lending by them.

And you went on further. You were absolutely scathing.

Dr. Michael Somers: I probably should have kept my opinions-----

Deputy Michael McGrath: And you were pointing the finger at NAMA.

Dr. Michael Somers: Well, I should have kept my opinions to myself, obviously.

Deputy Michael McGrath: But you didn't, so-----

Dr. Michael Somers: I mean, that's ... I mean, I supported NAMA-----

Deputy Michael McGrath: Is that still your view is what I'm asking?

Dr. Michael Somers: Yes. Well, I supported the whole NAMA project initially. And, I mean, the Taoiseach said he went around the table and asked us all did we support it and I said "Yes." I, kind of, began to get cold feet then about it as time went on and I saw the implications of it and the idea that we'd hand vast amounts of money over to the banks. And I tried to persuade the Minister, and I failed on this, say, "Look, could we start with a few loans or something and see would that solve the problem. Why do we have to take everything from them? Or why can't we just, you know, get the banks to solve the thing and get them to pull in these loans that they've extended? Why do we have to do this? They created the problem and force them to do something about it." He didn't seem to have an appetite for that. I mean, he ... the whole Peter Bacon project ... he had met Peter Bacon somewhere or other, who had told him about this, kind of, project and he then rang me and said would I hire Peter Bacon, negotiate it with him, provide him with a room, etc., to produce a report to give him. And Peter Bacon produced this thing very fast. I thought actually, myself, that it would be turned down by the Department of Finance, because the one thing the Department of Finance were very good at was turning down things and I reckoned this would never get past them. But it did and suddenly it became Government policy and it took legs. And suddenly here we were with this thing and it was, kind of, semi-frightening that ... you know, that we were going to take on this huge liability and hand over all this money to the banks and I tried to see could I slow it down because, well, I never saw the likes of it before. And it was done in Sweden. You see, there was a Swedish model, but I think in Sweden it was only about 8% of their GNP. It was nothing like the vast thing that we had here in this country.

Chairman: Thank you, Dr. Somers. I just want to wrap up a couple of things. Dr. Somers, in or around 2007 ... you're a bit like myself, I'm not great on names and dates; I just remember the general picture. But in 2007, the summer of then, the NTMA took an €8 million investment in Bank of Ireland bonds and I think it started to invest other bonds in the Irish market at that time. Would you have any idea, off the top of your head, as to what the quantity of the NTMA investment was in Irish institutional bonds in around 2007-2008?

Dr. Michael Somers: Chairman, are you ... sorry-----

Chairman: I don't have the figure here, so I'm just ... I'm-----

Dr. Michael Somers: No. There was a proposed investment in Bank of Ireland, which I think was €100 million or something - I don't know if this is what you're referring to - which I actually opposed and you may ... I may or may not have got the records of the National Pensions Reserve Fund Commission, because I insisted on outlining what my objections were to this and I mean, I let it go to the board because I said, "Well, why should I stop it? Maybe it's a good idea", but I was completely opposed to it and I was outvoted five to one, I think, on it.

Chairman: If there was a burning of bondholders, how much would the NTMA have potentially been burnt for?

Dr. Michael Somers: I ... you mean Irish bondholders? I-----

Chairman: In NTMA bonds-----

Dr. Michael Somers: Yes.

Chairman: -----that the ... or the bonds that the NTMA had in Irish banks.

Dr. Michael Somers: I don't know, Chairman. I'm sorry, I don't have the figure in that.

Chairman: Okay. Very final thing, Mr. Somers, you were actually at the IIEA event in Kilmainham when Mr. Trichet was actually there. In an earlier question there, you were painting a picture that you believe a bailout programme was inevitable by 2007. Am I correct in hearing you say that, that a bailout programme, not a guarantee now but a bailout programme that we were on track-----

Dr. Michael Somers: No, no, I hope I didn't say that, because I wouldn't be-----

Chairman: Okay, I just wanted to clarify that because ... yes.

Dr. Michael Somers: No, I didn't have that much foresight.

Chairman: All right. Okay. So what were you saying in 2007, so? You were saying that there was something there in 2007 or that the banks were-----

Dr. Michael Somers: Well, I mean, 2007 was when the first ... the thing started-----

Chairman: Yes.

Dr. Michael Somers: -----and it was during August 2007-----

Chairman: I just wanted to clarify that.

Dr. Michael Somers: -----and that's when the Department of Finance began to object to the fact that we were taking money out of the Irish banks and putting it into the Central Bank.

Chairman: Yes. Okay.

Dr. Michael Somers: And it all kicked off from there.

Chairman: And the other thing that Mr. Trichet said, when he was at that date, just to come back to that, he gave an analogy of how much liquidity the ECB were putting into Irish banks at the time and he went on to say, as you know, we could have also continued on our side having gone up to 100% of GDP, to 200% of GDP, and 300% GDP and then he refers to this inquiry carrying out an investigation in that regard and he says, "You [could] say, 'Were you totally crazy at the ECB to continue, when we were going in the wall at 100 mph, to continue to provide liquidity and liquidity and liquidity?'" Hearing that comment that day at the IIEA, and you were present there, was Mr. Trichet indicating or was ... presenting a situation that the cost of the bailout would have been bigger if it didn't happen at November 2010?

Dr. Michael Somers: I don't know. I mean, the reason I was there, by the way, was that, you know, there was the difficulty about getting him over. I knew him quite well and Brendan Halligan asked me would I sit up so at least he'd have a ... whether he thought it was a friendly face or whatever but at least somebody he knew. I mean, his attitude was, as I understood it, that he had a quarter of his loan book stuck in Ireland. That he had given ... he had just given another chunk of money to Ireland and his attitude was, "If you want any more, you know, I've come to the end of my ... the road here, you'll have to go for a bailout, you'll have to bring a few others in because I'm not putting any more than 25%." And by the way, if I was in his position I would have said exactly the same, you know, a quarter of your loan book out to one small country, it was, he was taking a huge risk, I think. Now I'm probably biased because we've been friends for years and, you know, I wouldn't have the hostile attitude. Well, I always found him a very pleasant fellow and, as I say, I knew he was a Breton he felt he'd close relations with Ireland and that he had done the best he could. Now you can agree or disagree with him but, as I say, I was probably biased.

Chairman: Okay Mr. Somers, is there anything finally you'd like to add by means of closure?

Dr. Michael Somers: No. I mean, I wish you the best of luck in drawing all this together and coming to some conclusions on it.

Chairman: Thank you very much. With that said, I'd like to thank Dr. Somers for his engagement with the inquiry this afternoon and for your participation, to now to formally excuse you and to propose that the meeting be adjourned until 3:30 p.m. on Tuesday, 14 July. Is that agreed? Agreed. Thank you.

The joint committee adjourned at 8.07 p.m. until 3.30 p.m. on Tuesday, 14 July 2015.