

HOUSES OF THE OIREACHTAS

Volume 2

No. 45
Morning
No. 46
Afternoon

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 15 Iúil 2015

Wednesday, 15 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.

absented from the room, just to return for a private session with the committee then afterwards. So, Mr. Corrigan, thank you very much for your engagement and you're now excused.

The joint committee went into private session at 12.31 p.m. and resumed in public session at 1.11 p.m.

Irish Banking Federation - Mr. Pat Farrell

Chairman: We will now go back into public session. Is that agreed? Agreed. Okay. We will now commence on with our session of today with Mr. Pat Farrell, former CEO of the Irish Banking Federation. The Committee of Inquiry into the Banking Crisis is now resuming in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? At our next session, we will hear from Mr. Pat Farrell, former CEO of the Irish Banking Federation. Pat Farrell was CEO of the Irish Banking Federation and the Federation of International Banks in Ireland from January 2004 to June 2013. He is currently head of group communications and government affairs at Bank of Ireland. Mr. Farrell, you are very welcome before the committee this afternoon.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2) (I) 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 are documents and that they are confidential and should not publish any of the documents so displayed.

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

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

Mr. Pat Farrell, former Chief Executive Officer, Irish Banking Federation.

Chairman: Once again, Mr. Farrell, welcome before the committee this afternoon. And if I can invite you to make your opening remarks to the committee please.

Mr. Pat Farrell: Thank you, Chairman. As requested by the Joint Committee of Inquiry into the Banking Crisis, I am providing this witness statement in my capacity as CEO of the Irish Banking Federation, the Federation of International Banks in Ireland, a position I held from January 2004 to June 2013. I'm endeavouring to address the broad themes which the

NEXUS PHASE

joint committee has requested of me in my capacity as CEO of IBF for the period - the relevant period - to the extent possible in this capacity.

By way of background, IBF was established in 1973 on Ireland's accession to the European Economic Community to represent the Irish banking sector internationally as well as domestically. FIBI was formed following the establishment of the International Financial Services Centre so as to provide a particular focus for the needs of international banks.

My own appointment as CEO of IBF commenced shortly after the establishment of the Irish Financial Services Authority. My responsibility was to assist the council of the IBF in formulating strategy for the IBF and implementing that strategy. The council of the IBF typically consisted of either the group CEO or the head of the Irish retail banking division of the main Irish banks, domestically-focused international banks and the CEO-country managers of several of the internationally-owned, internationally-focused banks. I represented the sector at European level as a member of the executive committee of the European Banking Federation and I also represented the sector through membership of a number of relevant Irish industry and State-sponsored bodies. I also represented the sector for certain engagements with the media and in engagements with the State and with public representatives. Such engagement took place when common themes existed for the IBF's membership, which themes had been endorsed by the council of the IBF.

My tenure covered two quite distinct, separate phases. The first phase was the period 2004 to 2008 which saw a significant increase in the number of financial services companies and banks operating in the domestic Irish consumer banking markets, culminating in, for example, over 13 providers of mortgages. This was a period of rapid but, as subsequently proved, unsustainable economic growth, with overseas banks entering the market - either directly or through acquisition - and with the established banks seeking to grow their business and/or responding to this wave of intense competition. At the same time, there was also considerable growth in the number of banks establishing internationally-focused activities to operate from Ireland.

The second phase involved the aftermath of the international and domestic banking crisis from mid-2008. The impact of this crisis and its aftermath on the stakeholders of the IBF's member banks, including their customers, shareholders, staff and the taxpayers of their home countries - including, of course, Ireland - is well documented. The aftermath included some of the following outcomes - retrenchment, insolvency, restructuring, nationalisation and exit for a significant number of banks operating in or from Ireland. In some cases, this reflected the fact that entire banking groups' business model and activities were fatally or fundamentally flawed or a recognition that the business models for their Irish activities were either flawed or could not be maintained as they sought to preserve capital, liquidity and reduce costs. The designs of the group business models for these banks and of the business models for the Irish activities of these banks had a number of different features and they responded in a number of different ways to the challenges these business models faced. However, common business model flaws were: under-capitalisation; over dependence on wholesale funding; aggressive pricing; and loosening of credit standards coming into the crisis, followed subsequently by rapid retrenchment to core - often home country franchises - post the crisis. The burdens on the Irish taxpayers and on the shareholders of the domestic Irish banks from the flaws in their business models has been the subject of a wide range of reports and investigations, including this inquiry.

Noteworthy has also been the in excess of approximately €50 billion which has been borne by the shareholders-home taxpayers of overseas banks, who had to recapitalise their subsidiaries competing in the domestic Irish market, and/or losses they actually incurred as they re-

trenched from the Irish market. This retrenchment-exit also caused significant difficulties for Irish consumers as they sought to make alternative banking arrangements away from the products-product providers which proved to have been unsustainable and/or customers finding that their loans-mortgages had been sold to entities where the customer had no choice in the matter. I should also say that, as a member of the executive committee of EBF, I witnessed similar pre and post-crisis features across the banking industry to differing degrees of severity. Given the role of IBF as described above, we were not privy to, and did not have a role in adjudicating on, the funding or liquidity policies, the risk management models or the composition, skills and experience of the boards of individual banks.

My term as CEO of IBF commenced shortly after the formation of IFSRA, as I've said, and I noted early on that the consumer director sat on IFSRA's board whilst the prudential regulator did not. In the period up to September 2008, the primary interaction I had with IFSRA was on consumer-orientated regulatory matters and initiatives and this was the focus of the agreed strategy of interaction agreed with me by the council of the IBF for the domestic banks. For example, during my tenure the IBF had the responsibility for co-ordinating the implementation of a range of consumer focused initiatives such as the Dormant Accounts Act, interbank switching codes, IBF-money advice bureau - known as MABS - debt protocol, promotion of electronic payments, consumer protection codes and the establishment of the Social Finance Foundation. For the international banks, there was considerable focus on taxation-related issues and skill shortages in the Irish market. I sought on several occasions to have broader dialogue with the Central Bank on general banking issues but was given the clear message that IFSRA was the primary conduit for engagement. There was also a focus for the IBF on engagement, through the EBF, with the European integration agenda in terms of payments, consumer protection and other initiatives to complete the EU Single Market in financial services. From time to time, we also submitted technical papers prepared by members in response to regulatory consultations both locally and at EU level. To my recollection, business model discussions and general issues of prudential regulation in areas such as capital, liquidity or credit standards were not a notable feature of agenda discussions within the IBF or between IBF and regulatory or other authorities.

As CEO of late ... of IBF, I was, in late 2004, appointed by the Minister for Finance as a member of the financial services consultative industry panel, which was in existence up to June 2010. The role and mandate of the panel was to act in an advisory capacity to the newly-established Irish Financial Services Regulatory Authority. Its role was similar to panels operating in other jurisdictions, such as the practitioners panel which operates in the UK under the aegis of the Financial Conduct Authority. The panel published five annual reports covering the period 2005 to 2009, inclusive, the broad themes of which were as follows: a critical focus on the balance struck between the prioritisation and allocation of resources to the conduct of business - i.e. consumer - and the prudential regulation roles of IFSRA; a request that the regulator deepened its understanding of individual firms' business models given the diversity and complexity of regulated firms operating in Ireland; consideration be given to having a designated senior executive focused on IFSC supervision; with reference to EU legislative and regulatory agendas, it proposed the appointment of a dedicated senior executive with responsibility for co-ordination of the Irish engagement and response; it proposed reviews of competition barriers in retail banking; we called for extensions of provisions of consumer codes to non-deposit-taking entities then operating as mortgage lenders; and sought the application of regulatory impact assessments to major regulatory and legislative initiatives; called for investment in HR and IT support services and review of the associated shared services model which then in place between the Central Bank and IFSRA; we commented on proposed industry levies and methods of allocation and general commentary on IFSRA's annual budgeting process; and the promotion

of benchmarking against best practice regulation in comparable jurisdictions.

In the interests of time, Chairman, I'm going to summarise the verbatim piece from the report. But the panel in its final annual report of 2009 noted that the panel was to ensure a meaningful participation in the debate around the reform then under way of the regulatory structure. We published a paper in that regard, and it was acknowledged subsequently as a significant contribution to that debate, and that culminated in the Central Bank Reform Bill of 2010. And among the things that we had stressed and that we found reassuring in the actual publication of the Bill, was that the single most important ingredient required for successful reform was the quality of the people. There was a very good beginning made with the appointment of Central Bank Governor, Patrick Honohan, and Financial Regulator, Matthew Elderfield. The regulator's strategy was proposed to the ... or presented to the panel prior to its public announcement and we noted very positively the fact that a lot of the recommendations we had made previously in relation to the critical importance of an appropriate skills mix in the regulator, an understanding that the regime should be risk based and not "one-size-fits-all", and the importance of a strategic policy unit was all broadly contained within the strategy, so we were very pleased about that.

As the crisis unfolded during the second half of 2008 the various members of the IBF became increasingly focused on their own specific issues and it became apparent that for some of the subsidiaries of international banks the key decisions were being taken outside of Ireland. The members of the IBF had different senses of priorities, were reluctant to show their hands, for obvious reasons, and had differing degrees of mandates to articulate to the IBF as to what they wanted the IBF's mandate to be in engaging with relevant authorities and regulators on solvency and liquidity issues. Engagement with the Central Bank, IFSRA and the State during this time tended to be focused on issues such as bank support mechanisms for customers, including those in mortgage arrears, and IBF obligations arising from the introduction of the credit institutions scheme.

Prior to 29 September 2008, IBF had no mandate from the IBF council to discuss specific Government liquidity or solvency support initiatives for the sector with the authorities and was not a party to considerations by the authorities on such matters. During 2009, and particularly after the arrival of Professor Honohan as Governor of the Central Bank of Ireland and Matthew Elderfield as regulator, there was increased evidence of cross-stakeholder working groups involving the Department of Finance and the Central Bank of Ireland, where IBF was a participant on sector wide issues such as mortgage arrears, codes of practice were ... where codes of practice, etc., were developed and enhanced, and I witnessed a high degree of co-operation and interaction.

With regard to the troika, we were used by the troika as a source of information, particularly during 2011 and 2012, and views were solicited on a range of themes including: competition-related matters and issues; sectoral initiatives and progress on mortgage arrears resolution. We had a number of discussions regarding judicial process, legislative and regulatory impediments we believed were exacerbating the problem and presenting barriers to resolution, and our views regarding proposed reform of the bankruptcy regime and the introduction of a personal insolvency framework. We also discussed access to credit for SMEs and support for firms with a sustainable business who were experiencing financial difficulties. All such interactions with the troika were either done in conjunction with the Irish authorities, or the details of the engagement were shared with the Irish authorities.

That concludes my statement. Thank you, Chairman.

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Chairman: Thank you very much, Mr. Farrell, for your opening statement. And if I can invite Deputy John Paul Phelan now. Deputy, you have 25 minutes.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Mr. Farrell. Firstly, I wonder if you could outline for the committee the nature or, I suppose, how you were appointed chief executive of the IBF in June 2004? What was the nature of the process that led to your recruitment for the role?

Mr. Pat Farrell: As I recall it at the time, the position was ... I think I was approached by an executive search and select company. I think the name of the company, I think, was Amrop at the time. I know it was a competitive situation. There were obviously quite a number of applicants for the position. I was interviewed by a number of senior executives from the banking sector. I think I may have had more than one, perhaps two or three interviews. And subsequently I was made an offer of employment and appointed. I took up the position then in January 2004.

Deputy John Paul Phelan: Okay. And you made the initial ... or sorry, you were initially approached yourself prior to making an application?

Mr. Pat Farrell: Yes, yes.

Deputy John Paul Phelan: Okay. Can I ask you, and I'm aware that you may not wish to answer this, but the nature of the relationship between the IBF, which ... one of its functions, I suppose, is as a lobbying group for banking interests with Government, is part of the terms of reference of our inquiry. Are you prepared to divulge to the inquiry the remuneration package that you would have-----

Mr. Pat Farrell: That's a private matter.

Chairman: That's outside the scope. Mr. Farrell, that's entirely your own gift to furnish.

Mr. Pat Farrell: No, I mean, it's a private sector organisation. It wasn't in receipt of any public funds and the matter of my salary is confidential to myself and my then employer, so I'm not prepared.

Chairman: I'll have to ask you to move on, Deputy.

Deputy John Paul Phelan: That's okay. How many people would have been working in the IBF in 2004 versus 2013 when you left? Can you-----

Mr. Pat Farrell: I think it roughly remained the same. It was about 15 to 16 people at the time. It was largely the same. Maybe a couple of more people at the end.

Deputy John Paul Phelan: Okay. You served as general secretary of Fianna Fáil from 1991 to 1997. Did you remain on as a member of the party up until the time that you left the banking federation?

Mr. Pat Farrell: No, I did not.

Deputy John Paul Phelan: Okay. Would you have been personally close to many of the Ministers who would have served in government in the period, we'll say, after your having left employment with Fianna Fáil and having taken up, in January of 2004, work ... employment with the bankers' federation?

Mr. Pat Farrell: Well, I had a professional relationship with all of these people obviously from my time as general secretary of the party. That wouldn't be surprising. I knew these people. I came into contact with them from time to time. As I said, I was not a member of any political party after that time and that was generally the nature of the relationship.

Deputy John Paul Phelan: Can I ask would you have had reason to, you know, make contact with members of the Government in your function as chief executive of the bankers' federation, direct contact on banking matters in particular?

Mr. Pat Farrell: Of course, of course I would.

Deputy John Paul Phelan: Yes. Would there have been ... how many times in your roughly ten years would you have dealt, specifically maybe with the Department of Finance, whether the Minister or the various Ministers, the various Secretaries General that would have been in the Department in that period?

Mr. Pat Farrell: Yes. Well, I suppose, first of all, over the period of my time as CEO of IBF I dealt with, I think, three different Governments. There was the Fianna Fáil-PD Government. Then there was Fianna Fáil, Green Party and the PDs. And then there was the Fine Gael-Labour Government. My *modus operandi* was the same in every circumstance. I developed a professional relationship with Ministers, with Oireachtas Members, with policy makers, with the senior civil servants and other civil servants, and other stakeholders that I had reason to engage with as part of my mandate. And my dealings with them was the same regardless of their political composition or direction.

Deputy John Paul Phelan: That's fair enough, I'm not questioning that. But would you have had much interaction, I suppose? The level of interaction?

Mr. Pat Farrell: Oh, I would have had a reasonable amount of interaction. I mean, how much is how much? I mean, I suppose I had a very busy agenda. I had a mandate which was for a sector that was a regulated sector, which was subject to legislation. The Department of Finance had a particular role in relation to the sector. The Central Bank obviously and the Financial Regulator were the appropriate regulators and therefore in order to discharge my mandate, I had to have a reasonable degree of interaction. I had meetings with Ministers and officials. I had meetings sometimes, but not that often, I have to say, with Ministers themselves. And I would have had ... I'd say my primary action probably ... interaction was with officials.

Deputy John Paul Phelan: Again, and this is my last question on this point and this area, as a former general secretary of Fianna Fáil and a former Senator, former Member of the Oireachtas, could you comment for the inquiry on the appropriateness of the relationship you and the banking federation had with Ministers for Finance and Government over your ten-year period, including, I suppose, a comparison as relative to other lobby groups?

Mr. Pat Farrell: Well, I think I've already answered that question but I will answer it again. I said, and for the record, that all my relationships and dealings with all politicians and with the public authorities was appropriate and professional, and at all times. Now, I would also add that it is not unusual for somebody with a background in public affairs or political life to be involved in advocacy or representation; it is actually quite common and it runs across organisations such as the IFA, such as ... I could go on at length to name the organisations, and there are lots of former politicians who are also ... work with, since they've retired from their positions, with public relations firms, with advocacy groups. So, it is absolutely a common occurrence and it

would be surprising if it were other than that.

Deputy John Paul Phelan: Okay. I do want to change now, Mr. Farrell, and just refer to your opening statement. You described in it the period 2004 to 2008 as a period of rapid, but, as subsequently proved, unsustainable economic growth. To what extent do you now consider that the banking sector has borne any responsibility for the unsustainable element of economic growth in that particular period?

Mr. Pat Farrell: Well, during my time as CEO of IBF, I think I came before many of the members here in different capacities on different committees. I also had a mandate to speak in the public realm on behalf of the sector and on all of those occasions, I readily acknowledged, freely acknowledged, the role that the sector had played in the economic crisis, and was unambiguous in stating that position.

Deputy John Paul Phelan: Would you like to outline it, briefly perhaps, in your-----

Mr. Pat Farrell: Well, I have already outlined it in my witness statement-----

Deputy John Paul Phelan: Yes.

Mr. Pat Farrell: -----and, again, to ... if it bears repetition, banks, obviously, had loosened their credit standards; they had flawed business models; there were issues around unsustainable expansion of credit; I mean, the list is longer than that, but, if you take them together, obviously, it made a major contribution to the crisis.

Deputy John Paul Phelan: Okay. In a draft memorandum to Government in October 2005, it stated:

The Irish Bankers Federation approached the Department of Finance in April 2005 regarding changes to the Investment Intermediaries Act. ... They [being the IBF] have engaged McCann FitzGerald Solicitors to draft the legislation in conjunction with all of the major issuers of Covered Bonds in Ireland who have been closely involved in the process e.g. Depfa, West LB, Bank of Ireland GM.

Is it usual, or, was it usual, in your time in the IBF, to draft legislation for the Department of Finance? How much of that legislation made it into the final Act? And what impact did it have, do you believe, on the banking sector?

Mr. Pat Farrell: Okay. There's a number of parts to that question so maybe I might just provide a bit of context first of all. The Asset Covered Securities Act was introduced in 2001, well before my time as CEO of IBF. It enabled the sector here to provide covered bonds as a method of funding, principally for the mortgage market. This is a system that had been in place in Germany for over ... a couple hundred years, same in Denmark, same in France, so what we were doing was merely coming into line with what was a very accepted funding instrument internationally. The Act of 2007 was an amendment to the original Act of 2001; it was an amendment. The reason for the amendment of the Act was triggered by the pending introduction of the capital requirements directive, otherwise known as Basel II. That was the EU's method of giving effect to Basel II. And, because this concerned capital, it cut across almost all elements of the Asset Covered Securities Act and these instruments. So, in order for the covered bonds legislation and the instruments to remain compliant, and to remain relevant and to be able to continue to be transacted, there had to be amendments made to the Act in order to align it with the capital requirements directive. So, that was the principal purpose of the amendments. It

says in the note, and I have it in front of me, that it says we drafted the legislation. I would feel, and I, you know ... the note is what it is. We did not draft legislation. What we would have done was said, in order for the Act to align with the capital requirements directive, these are the areas we believe will require amendment. At the end of the day - and you will know this as legislators - parliamentary draftsmen, ultimately, frame legislation, Attorney General's office will have significant input and eventual sign-off, and, ultimately, it will go before a committee, and, ultimately, it will be placed before the House. So, that was the context and that was the actual background to it. Could I just say, as well, that, you know, it was fairly complex legislation and that may well again explain the rationale for having a third party, because I know, myself, the Department of Finance itself retains external legal advisers from time to time to advise them and support in looking at legislative issues and drafting of legislation.

Deputy John Paul Phelan: In your time, the first part of my question was ... I admit, in your answer, that you said that it would be unlikely that you drafted legislation. I'm only referring to the note, but-----

Mr. Pat Farrell: No ... I completely accept that.

Deputy John Paul Phelan: Would it have been common practice, in your ten years, that such interaction would have happened between the IBF and the Department on particular items of legislation, that you would be preparing documents, whatever nature they were, whether they were drafted legislation or just highlighting areas that you think needed to be addressed-----

Mr. Pat Farrell: No, I don't think it would.

Deputy John Paul Phelan: Okay. I want to ask ... to turn now, maybe, to the area ... particularly the area surrounding the guarantee itself, and ask you if you had any interaction with the late Mr. Lenihan or Mr. Cowen between the end of 2007 and the introduction of the guarantee. We've had evidence from a number of witnesses at this stage that there was lobbying of various natures as to a political guarantee or, you know, ultimately, the blanket guarantee that was introduced. Would you have had any interaction along those lines in that period?

Mr. Pat Farrell: Not that I can recall. And I have looked at the evidence that has been submitted so far and I think it calls out different individuals, different interactions, talks about banks being ... interactions, or whatever. But, you know, again, these kind of matters - and I did refer to it in my statement - would be highly sensitive, market sensitive issues, and, you know, banks, as I said before, were extremely coy, and understandably so, in the realm of the banking federation, about discussing issues that were relevant to their own specific businesses, or that might give any, kind of, insight into their specific businesses or business models. So, it's not unusual that we wouldn't have been involved in any of this discussion. Like, I would have woken up to the newspaper announcement of the guarantee the same way as everybody else in this ... the vast majority of people in this country.

Deputy John Paul Phelan: You were unaware of the nature of the meeting that took place, then, on the night of the 20-----?

Mr. Pat Farrell: No, I had ... I hadn't ... I wasn't aware of it.

Deputy John Paul Phelan: Okay. Can I ask, actually, you, kind of, touched on it there, how many members would you have had, say, at that period in 2008? How many banks or banking institutions would have been members of the federation?

Mr. Pat Farrell: We had approximately 70 members, and, maybe I should put context on that, because immediately, I'm sure, minds will race to, "Where were the 70 banks?" But, there were 70 banks, of which about 13 or 14 of them were operating in the retail-domestic market, and the rest of them were banks ... sorry, were financial institutions with banking licences, operating, in the main, out of the IFSC. Some of them were located regionally as well, but, in the main, they were located in the International Financial Services Centre.

Deputy John Paul Phelan: So, would there have been banks operating in Ireland that weren't members of the federation?

Mr. Pat Farrell: No, I think, well, open to contradiction ... I suspect we had a pretty well 100% coverage of all banks that were licensed. And we did have it as a requirement that to be a member, you had to be a licensed bank.

Deputy John Paul Phelan: Okay, and, what was the nature of the fees paid, we'll say, by different institutions? Was it a standard fee across the board, or-----

Mr. Pat Farrell: Again, that's, that's confidential to myself and the-----

Deputy John Paul Phelan: Yes. I mean, I'm not looking for figures, I'm just seeing is it a blanket figure or was it ...did it vary?

Mr. Pat Farrell: No, no ... no, I'm very ... I would be anxious to be helpful. I mean, they, they ... obviously with a busy programme, we employed 16 people that were fairly specialised individuals and the fees varied according to the size of the bank's balance sheet, if they were a domestic bank, and then we had a fee arrangement for IFSC banks, which was related to whether they had over or under 40 employees, which was just an arbitrary number that we picked at the time.

Deputy John Paul Phelan: Okay. I just want to rewind a little bit then and go back to the guarantee itself. You are saying that there was no lobbying by the IBF prior to the guarantee announcement for any sort of Government action in respect of a guarantee?

Mr. Pat Farrell: Not that I can recall.

Deputy John Paul Phelan: You also said that ... well in your explanation that because of the nature of the banking sector and different banks didn't want to tell competitors what their own issues were at the time, that you wouldn't have been privy to information.

Mr. Pat Farrell: If I may, if you can imagine, bank A B or C and these are even, if you think about it in the context of evidence you have had from the Central Bank, they make references, they use alphabet to identify banks, so scrupulous are they are about identifying particular banks. The same kind of issues were at play for us. So therefore it wasn't likely, it was impossible that any bank was going to come to me, either bilaterally or certainly not in a forum of other banks, to say we have an issue with X or we have an issue with Y. Our job was to represent the banks where they had common positions and at a reasonably high level where they could co-operate around a particular issue. Remember, and I think I might have adverted to it, I mean, banks would have sometimes made their own individual submissions and issues because they might have a particular specific point of view that was not accommodatable within the broad-church view that we would be advocating on behalf of the collective of banks, if that makes sense.

Deputy John Paul Phelan: Yes, okay, it does make sense. I want to turn, or actually perhaps before I turn just to finish on the guarantee area, the IBF hosted - we have discussed this particular function that took place in Dublin on 26 November 2008 with several witnesses who came before the inquiry, a retirement function for the chairman of the regulator, Mr. Patterson.

Mr. Pat Farrell: Yes.

Deputy John Paul Phelan: In light of any of the evidence that you have heard or indeed subsequent events, what are your feelings with regard to the hosting of that particular function on that particular night?

Mr. Pat Farrell: Well it probably wasn't the best decision I ever made and that's with the benefit of hindsight because... I think it's important though to give context. Mr. Patterson retired as chairman of the regulator, I think it was in April of that year. He had been ill, I think that's common knowledge. As a common, as a courtesy, I suggested to him that we would have a dinner at some stage. His illness obviously meant that time elapsed and it was eventually November by the time it happened. In the meantime the guarantee had happened but you know in those circumstances - damned if you do and damned if you don't. The dinner happened, it was a two-hour affair, it was during the working week. It was a pretty sober affair because it was during the working week. There were no speeches, there was certainly no business transacted at it. It was a social occasion and understandably, the way it was reported subsequently, the optics of it were far from good. But that was the background to it, it was as straightforward as that.

Deputy John Paul Phelan: So do you accept that from the point of view of the general public that the idea that a lobby group hosting a retirement party - albeit maybe well deserved for the man who had been ill, who had been chairman of the regulator, really wasn't appropriate.

Mr. Pat Farrell: In the times that were in it, with the benefit of hindsight, of course I can understand that but I also again reiterate that it was not inappropriate in the sense that it was a social event. It was not anything other than that.

Deputy John Paul Phelan: Okay. Did you on behalf of the IBF, or the IBF other staff members, lobby on behalf of banks on the issue of bondholders? And we have had a lot of discussion with several witnesses on particularly junior bondholders in different institutions. Was there any lobbying done to ensure that the guarantee or subsequent Government decisions would have ensured that those bondholders would not have been asked to burden-share?

Mr. Pat Farrell: Not to my recollection.

Deputy John Paul Phelan: Can I now ask you to turn to page 83 of Vol. 1, the Pat Farrell booklet. It's an e-mail from you from 15 October 2008.

Mr. Pat Farrell: This is the one to Dermot McCarthy, yes?

Deputy John Paul Phelan: Yes. It is where you wrote to the Secretary General, the Department of the Taoiseach requesting his personal support for the inclusion of Depfa Bank in the bank guarantee. Can you outline the circumstances that led you to write that e-mail?

Mr. Pat Farrell: Well first of all, when the guarantee was announced, it was apparent obviously that only the domestic Irish banks were included in the guarantee. The joys of representing a broad church of membership, obviously I had a number of quite irate members. First of all, you had the banks who were operating in the retail domestic market here but had a foreign

parent. They were naturally, as you can imagine, they were quite annoyed. They felt that they were being placed at a disadvantage so they ventilated their concerns to me quite robustly. Then there were the two banks, Depfa and WestLB I think, if I recall them correctly, in the IFSC who had been availing of and using the covered bonds programme that I mentioned, which had its origins in the 2001 Act. They had been using that programme to issue bonds, finance and public sector assets, for quite some time and they were outside of it. Then there was the added complication that Depfa, and this is well chronicled in the public realm, was for a short period of time seen as an orphan in regulatory terms because it wasn't clear whether it fell within the ambit of the regulatory authorities here or Germany, although I think with the benefit of hindsight it was very clear that it fell within the German responsibility because it had been acquired by a German bank some time previously. So they were also concerned and that was the context for the note to Dermot McCarthy.

Deputy John Paul Phelan: Depfa were a member of the federation?

Mr. Pat Farrell: Absolutely, sorry I should have said that, they were indeed.

Deputy John Paul Phelan: Why did you put the request or send the e-mail to the Department of the Taoiseach as well as through to the Department of Finance?

Mr. Pat Farrell: Well, for a very good reason. The Clearing House Group operated under the aegis of the Department of the Taoiseach. The Clearing House Group was a multi-stakeholder group. It had financial services representation, public sector representation on it. It was chaired by the Secretary General of the Department of the Taoiseach, Dermot McCarthy, and it was charged with the promotion of the IFSC among other things, that was its broad mission. I felt, given that role and given that he was the chairman of it, that it was also important to convey the representation that I had received from what was an IFSC bank to him as well.

Deputy John Paul Phelan: Can I ask then in relation to that particular lobby, it did not succeed obviously but if it had to have succeeded, it would have opened up a potential leak, hugely more extensive liability on the taxpayer. Do you have a view now, were you purely acting in your role as chief executive or what is your view now as to that request?

Mr. Pat Farrell: That is a very good question. I mean, here's the reality of it, I come back again to the fact we are a representative body, we have an absolute obligation to represent our members' interests. When they raise a matter of concern with us, we have an obligation to advocate that to the relevant authorities. Depfa were themselves directly advocating their position to all of the various authorities as well. I am sure WestLB did likewise and I am sure the other banks that were operating in the retail market did so too. But our job is to convey that view. I mean, I think it is quite hypothetical as I said, if for a very brief period Depfa's status was unclear but it was quite quickly resolved and in any event their liability ... the German regulator took over responsibility in that situation.

Deputy John Paul Phelan: Can I ask was there other lobbying for other institutions other than those two named ones here that took place?

Mr. Pat Farrell: Not that I can recall and as I said there was a very specific reason for it, this particular situation, because of the fact that they had been, or they had felt as I said, left out. They asked me to convey that view to the authorities, which I did.

Deputy John Paul Phelan: Okay. My final question Chairman, again, it goes back, I suppose, to where I was at the start. In your time, particularly in the time that you were chief

executive of the IBF in the run-up to the guarantee, when Mr. Neary was the chief executive of the regulator, Mr. Hurley was the Governor of the Central Bank, can you briefly outline the nature of the relationship that you would have had, the level of contact that you would have had with either or both gentlemen, the level of even social contact outside of your lobbying activity as chief executive of the IBF?

Mr. Pat Farrell: I can't recall any specific social contact. There would have been industry events, such as the FSAI annual dinner, the Institute of Bankers annual dinner, which, you know, is a cast of thousands and ... would have met them in ... if you want to call that a social setting. Then ... I hear references in some of the transcripts to golf but I'm not a golfer, I've never been one, so that ruled me out on that point. And I would have met the regulator as a courtesy call for a cup of coffee maybe once every couple of months.

Deputy John Paul Phelan: Okay.

Mr. Pat Farrell: I don't think I met the Governor that often; in fact, very little. Because I think I adverted earlier on in my witness statement that, you know, I was quite methodical about the idea that I should identify all my stakeholders and try and build a relationship with them. That's what you do as a good advocacy body. In the case of the Central Bank, though, I found that there was constantly, kind of, getting the, sort of, impression that the point of contact was to be the regulator and that's what I did.

Deputy John Paul Phelan: Okay, thank you very much.

Chairman: Thank you very much. Next questioner now is Deputy Pearse Doherty. Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat agus fáilte romhat chuig an coiste. I want to go back to just the issue in terms of your lobbying of the general secretary of the Department of the Taoiseach in relation to Depfa Bank being included in the guarantee and if we'll ... we'll pull up Vol. 1, page 83, of the core booklets. Mr. Farrell, did I understand that you're informing the committee that the IBF were not aware who regulated Depfa Bank?

Mr. Pat Farrell: Sorry, can you repeat that question?

Deputy Pearse Doherty: Is my understanding of the evidence that you've provided to this committee that the IBF, the Irish Banking Federation, were unaware of who was the regulator of Depfa Bank?

Mr. Pat Farrell: Well, I'm not saying that I was unaware. I mean, there was ... there seemed to be a confusion as reported in the public-----

Deputy Pearse Doherty: Who did you ... who did you believe was the regulator?

Mr. Pat Farrell: Well, it became clear subsequently and it ... I think it only became clear, I think, in the week after it that the actual regulator was the German regulator.

Deputy Pearse Doherty: So, for four years prior to that, were you unaware who the regulator was?

Mr. Pat Farrell: No. I mean, there was an actual transition, as I think I explained earlier on.

Deputy Pearse Doherty: So, when was that transition?

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Mr. Pat Farrell: I can't be exact about it but I know that, sometime earlier - it may have been a couple of months - a bank called Hypo Real Estate-----

Deputy Pearse Doherty: Real Estate.

Mr. Pat Farrell: -----had acquired Depfa.

Deputy Pearse Doherty: In 2007?

Mr. Pat Farrell: I think it was, yes-----

Deputy Pearse Doherty: Okay.

Mr. Pat Farrell: -----in 2007.

Deputy Pearse Doherty: So, after 2007, you would have been aware that it would be the German regulator that was regulating Hypo Real Estate and, through its unit in Dublin, Depfa Bank; would that be correct or incorrect?

Mr. Pat Farrell: To be ... to be honest, I mean, there were banks in the IFSC and they were, in the main, regulated by their home regulators for prudential purposes, but then if there was a conduct of business dimension to it, they were obviously regulated by the home regulator. I can't recall, to be honest, being, you know, specifically aware of, well, "Who regulates Depfa? Is it the Irish regulator or is it the German regulator?, or at what point the baton passed.

Deputy Pearse Doherty: When you ... when you were lobbying the Irish Government or the Department of the Taoiseach for Depfa to be included in the bank guarantee, were you aware that it was the German regulator who regulated that bank at the time?

Mr. Pat Farrell: I ... that wasn't a consideration for me. I mean, Depfa came to me-----

Deputy Pearse Doherty: Yes.

Mr. Pat Farrell: -----and they obviously ... they had an impression, okay, and they were the regulated entity - IBF wasn't regulated - they had the impression that, in some way, they had a claim on or a legitimate right to advocate a position to be included in the guarantee and I simply represented that position to the authorities.

Deputy Pearse Doherty: And would your role in the ... IBF mean that you would carry out the instructions of the bankers despite that it would have potentially devastating consequences on the Irish State?

Mr. Pat Farrell: Well, first of all, there would have been an assessment, obviously, by the State of that because there would have been a clear line of sight on what exactly was involved and, secondly, I was merely representing their concerns. No more or no less.

Deputy Pearse Doherty: But the question is, would you represent their concerns despite the fact that the ... if they agreed to do what you asked them to do, that it could have a potentially devastating consequences to the State?

Mr. Pat Farrell: Well, as I said, Deputy, and I said it before, it was a hypothetical situation in any event, No. 1, and, No. 2, the authorities would have been fully aware of the extent of what might be involved if they were to do so. I think the reality of it is that it ...there was no question it was going to happen, but, in fact - and, again, to my mandate - they were asking me

to pass on a concern, a representation they had, and I did so. I think, you know, representatives, that's what they do.

Deputy Pearse Doherty: Yes.

Mr. Pat Farrell: Public representatives all the time represent their constituents without fear or favour and sometimes they may not ... you know, they don't pass value judgments on the representations they receive, they pass them on. They represent-----

Deputy Pearse Doherty: Mr. Farrell-----

Mr. Pat Farrell: -----their mandate.

Deputy Pearse Doherty: -----how is this a hypothetical situation? The IBF lobbied the Department of Finance for Depfa to be included in the guarantee - not hypothetical, looked for them to be included as a section in the guarantee. And you went then to the Department of the Taoiseach asking "We need your support in this." How was this hypothetical? Was this not a very concentrated effort on behalf of the IBF to have a German bank included in the guarantee and were you knowledgeable that the German Government and authorities had increased its exposure, its bailout, up to €50 billion just a week before for Hypo Real Estate because of the problems that Depfa Bank-----

Mr. Pat Farrell: But I didn't-----

Deputy Pearse Doherty: -----were going through at the time?

Mr. Pat Farrell: I didn't have the knowledge of that, for a start, and ... No. 1, and, No. 2, it was hypothetical because, in the event, it did not happen.

Deputy Pearse Doherty: Sorry, you didn't have knowledge of what?

Mr. Pat Farrell: Of the ... the thing you mentioned to me about Hypo and-----

Deputy Pearse Doherty: So, you weren't aware that the Germans had created a bailout fund for Hypo Real Estate because of the liquidity problems of Depfa Bank?

Mr. Pat Farrell: Not particularly.

Deputy Pearse Doherty: What do you mean "not particularly"? Like, this was-----

Mr. Pat Farrell: I actually don't recall that at the particular point in time but what I did do was I got a representation from Depfa which I passed on to the relevant authorities, no more or no less.

Deputy Pearse Doherty: Can I ... well, can I put it to you that you did do more? You actually passed on the representation ... well, you actually passed on a representation, from the evidence that we have, which came from the IBF, looking for Depfa to be included in the guarantee, which was drafted by the IBF themselves, but you went further and you went to the Secretary General of the Department of the Taoiseach and asked for his support in this ... in a two-line statement to Dermot McCarthy. Like, you lobbied for it; would that not be correct? You lobbied for Depfa Bank-----

Mr. Pat Farrell: You say I-----

Deputy Pearse Doherty: -----which was ... which becomes-----

Mr. Pat Farrell: You say I-----

Deputy Pearse Doherty: -----which became a bust bank at the cost of billions of euro to the German taxpayer. You lobbied for that burden to be placed on the Irish taxpayer.

Mr. Pat Farrell: You say that I lobbied; I passed on a representation.

Deputy Pearse Doherty: Okay. See the representation that we're looking at on the screen, where it says, "We need your support in this - IFSC banking has been completely overlooked. [This] issue is as relevant to retail banks as to the covered ... banks of IFSC." Is that passing on representation or are they your words ... looking for the general secretary of the Department of the Taoiseach to include what is ... later on in the attachment, which is looking for Depfa Bank to be included in the guarantee?

Mr. Pat Farrell: Well, I saw it as passing on a representation that we had from the bank concerned.

Deputy Pearse Doherty: How can your request for the Department of the Taoiseach for support be seen as just passing on a representation? Didn't you not make a call to the Department of the Taoiseach, based on this evidence, for Depfa Bank to be included in the guarantee?

Mr. Pat Farrell: We'll have to differ in our interpretations of it because what I did was I passed on a representation that I had from a bank.

Deputy Pearse Doherty: Okay. The first two lines - just let's look at the screen - where you've asked the Department of the Taoiseach's general secretary for the support of this issue, is that passing on representation or is that calling for the Department of the Taoiseach to act on a matter?

Mr. Pat Farrell: I saw it as passing on a representation.

Deputy Pearse Doherty: Okay. So, I pass on representations on behalf of my constituents and I usually say, "I've received this representation; I'm passing it on for your attention." I would feel that, if I call on somebody to support the representation, that I'm lobbying on behalf of my constituent or whatever sector has come to me. Do you share that view?

Mr. Pat Farrell: Well, if you take ... this representation was passed on. As far as my recollection is, nothing further was done from our side and subsequently the German regulator assumed responsibility for those liabilities.

Deputy Pearse Doherty: Okay. Were you aware that Depfa Bank had ... had approached the Department that weekend? Indeed, in Honohan's report, it talked about that the concern at the weekend of the bank guarantee was in relation to Depfa Bank's liquidity problems. Would you have been aware of-----

Mr. Pat Farrell: I have read something in correspondence. It may be at the ... all the correspondence that's been included or something in transcripts, that they had made their own representations. I think it's covered in some newspaper report.

Deputy Pearse Doherty: Yes. But just from your position, as the CEO of the IBF, were you aware that one of the banks - one of your banks, that were under your ... you know, that

paid fees into your body - was in serious problems in relation to liquidity and it was actually the focus of attention that weekend, the weekend of the bank guarantee, was on Depfa Bank, not on Anglo Irish Bank?

Mr. Pat Farrell: Not particularly, because, I mean, the primary focus on that weekend was obviously around domestic banks and the guarantee for the domestic banks, guaranteeing the stability of the system and ensuring that banking could function, and continue to function, in the aftermath of it. That was what I think was dominating everybody's minds. I think that's what was dominating the minds of the man in street. And I think it was hardly a primary source of focus for anybody, what was actually happening in relation to IFSC banks.

Deputy Pearse Doherty: Did you ever find out how much Depfa Bank cost the German taxpayer?

Mr. Pat Farrell: I didn't.

Deputy Pearse Doherty: Would it been in excess of €20 billion, €30 billion?

Mr. Pat Farrell: I said I didn't so I can't actually-----

Deputy Pearse Doherty: Sure.

Mr. Pat Farrell: -----speculate on the range.

Deputy Pearse Doherty: Okay. And in relation to Depfa Bank, one of its board of directors was the former Governor of the Central Bank, Maurice O'Connell. Did you have any interaction with the former Governor, Maurice O'Connell, in relation to your representations of Depfa Bank being included in the guarantee?

Mr. Pat Farrell: Not that I'm aware; I can't recall any interaction with him on it.

Deputy Pearse Doherty: Okay. In 2007, the IBF brought together the chief risk officers of the banks in Ireland to discuss the systemic risk. At any point, was the issue of solvency of an Irish financial institution, and the systemic impact on the banking sector, discussed or considered? And what was the eventual outcome of this meeting? And were officials of the Financial Regulator or the Central Bank or the Department of Finances updated on the discussions and outcomes?

Mr. Pat Farrell: Can you bring up the document for me?

Deputy Pearse Doherty: I don't have a document to bring up to you. Are you aware that, in 2007, the IBF brought together chief risk officers of the banks to discuss systemic risks?

Mr. Pat Farrell: I have a recollection that there was a convening of risk officers at that time. And there was a background to it - bird flu.

Deputy Pearse Doherty: So bird flu was what was concerning-----

Mr. Pat Farrell: Yes

Deputy Pearse Doherty: -----the IBF in 2007?

Mr. Pat Farrell: Well, it ... I'll tell you what the background to it was. We were asked to convene on that basis by the authorities, because at that time, there was a purported pandemic

because of avian bird flu, and, at one stage, it was estimated that if it got the grip that was being speculated upon by the World Health Organization, which is an authoritative body, that 25% of critical services and banking infrastructure and payments could be paralysed. And we were asked by the authorities to convene a group to examine this issue and it became a standing group then after that because it looked at things like cyber-crime risk and other such issues.

Deputy Pearse Doherty: Okay.

Mr. Pat Farrell: But that was, as far as I recall it, the genesis of why it came together and what was the actual background to it.

Deputy Pearse Doherty: So, when you had these chief risk officers in the room from, I presume, some banks that went bust - Anglo, Nationwide, AIB, Bank of Ireland, other banks, EBS - to discuss bird flu, did you discuss ... and cyber-crime at a later stage ... did you discuss at any time issues of solvency of the banks, given that they're the chief risk officers that were sitting at the table?

Mr. Pat Farrell: Well, first of all, I actually don't recall that I would've been at those meetings because they would have been convened by our prudential director. But in so far as ... they were ... I have any recollection of what the content would have been it would have been around, as I said, things like the original one which was pandemics and the potential impact of them. And it was very real at the time. It may seem funny at this vantage point but it was very real issue at the time. And cyber-crime risk was also another very real issue. But going back again to the mandate that I had and to the position of the banks when it came to issues that were directly relevant to their own business models and their own operations, banks were not in the business of sharing that kind of information around the table.

Deputy Pearse Doherty: So is that a "No" to the question that solvency ... bird flu and other-----

Mr. Pat Farrell: As far as ... to the best of my recollection-----

Deputy Pearse Doherty: -----systemic risks such as cyber-crime was discussed but-----

Mr. Pat Farrell: As best of my recollection-----

Deputy Pearse Doherty: -----in terms of solvency or-----

Mr. Pat Farrell: -----best of my recollection.

Deputy Pearse Doherty: Okay. Right. When ... you mentioned that the IBF weren't aware of the bank guarantee and you woke up that morning like everybody else. So, we have uncovered in this inquiry that discussions in terms of guarantees and, indeed, legislation were being drafted as early as April 2008. So, is it the IBF's position that they were unaware of any of that process of consideration of legislation or anything to do with that until after the announcement of the guarantee?

Mr. Pat Farrell: We had no line of sight on anything specific because we know that from, I think 2007, internationally, there was a challenged liquidity environment and, through 2007 and 2008, that, obviously, became aggravated. So, naturally, there was an international backdrop and it did come to wash on our shores of issues around liquidity, tightening up of wholesale funding access to it, all of that kind of thing. But, we weren't involved in any specific discussions, or even general discussions, about guarantees or the like.

NEXUS PHASE

Deputy Pearse Doherty: No, but the question is when did you become aware? It's not about whether-----

Mr. Pat Farrell: But I ... But I said to you already when ... I said I think already, sorry, Deputy, that, you know, I woke up to the bank guarantee the same as everybody else.

Deputy Pearse Doherty: Yes. That's the bank guarantee decision; we all woke up that morning and we knew that the ... we found out that the Government announced it, well, most of us in the country anyway, that weren't in the loop. But, the question I'm putting to you specifically is: was the IBF aware that the Department or agencies were considering a guarantee at any stage prior to the morning that you woke up to hear that the guarantee was announced?

Mr. Pat Farrell: I have no recollection of having been involved in any discussions around a potential guarantee or options around a guarantee.

Deputy Pearse Doherty: Okay. Okay. Was the IBF ... I presume you weren't aware that one of the ... it's suggested that one of the main banks drafted its own bank guarantee. Was the IBF aware of this? Was it consulted on the draft? Did the IBF ever receive a copy, before or after, of the bank's own version of the guarantee?

Mr. Pat Farrell: No. I mean, I know this is ... it bears repetition though. Our job was to represent the banks collectively on issues that we could establish a collective and common position. And you can deduce from that that a lot of issues then, particularly when they're referred to individual banks or referred to individual banks' business models and the like, fell outside of our ambit. And that's not unusual. That would be the same in any other representative body. Members will come together when it's in their interests to advocate a particular position, but when it comes to their own individual business and the way they operate their businesses, they will play their cards very close to their chest because, that's business intelligence, and they're not going to share that information with somebody else.

Deputy Pearse Doherty: Okay, so just the question again in terms of the drafting of the bank guarantee by one of the banks. Did the IBF become aware before or after that that occurred?

Mr. Pat Farrell: I wasn't aware of it before.

Deputy Pearse Doherty: And after?

Mr. Pat Farrell: Well, I'm aware of it ... sorry, I'm aware of transcripts here where there's this debate and discussion about whether there was papers tabled or not, that's my state of awareness.

Deputy Pearse Doherty: But ... okay, that's your only state of awareness?

Mr. Pat Farrell: Yes.

Deputy Pearse Doherty: Okay, I appreciate that.

Chairman: If you don't you mind Deputy, it's just you mentioned earlier there, Mr. Farrell, that you brought together chief risk officers-----

Mr. Pat Farrell: Yes.

Chairman: -----of the banks in 2007. Which authority brought that together or what au-

thority was it?

Mr. Pat Farrell: The IBF.

Chairman: It was the IBF, was it? Okay.

Mr. Pat Farrell: And again, you know, like me ... it was ... again, to bring people's minds back there was a very real ... I mean, it dominated the news flow for about a month. There was a pandemic in Asia and the projections by the WHO at the time was that it was likely to spread worldwide and there was a very real and visceral discussion across media about the potential impact to this on critical services, particular ... including banking. And we were asked at the time by the authorities to convene and consider what kind of contingency planning could we put in place to combat a potential threat associated with that.

Chairman: Back to yourself, Deputy.

Deputy Pearse Doherty: Mr. Farrell, you were appointed to the Seanad for the sum total of one sitting day by the previous Taoiseach, Albert Reynolds, which happened between the general election and the Seanad election. Being a former Senator for that one sitting day gives you privileges in terms of access to the Houses of the Oireachtas. How important or not was that access, that unfettered access to the Houses of the Oireachtas as a former Senator in your role as a ... in the IBF?

Mr. Pat Farrell: Well, it wasn't unfettered because I think all of you, the Deputies, will know me here and they will know I wasn't in the business of wandering around the corridors of Leinster House. I came to Leinster House by appointment, or when I had a reason to be here, where I had been summoned by an Oireachtas committee or where I had official business. So, I'm not sure if that answers your question.

Deputy Pearse Doherty: Okay. Mr. Farrell if we can go to the ... just picking up what Deputy Phelan was talking about. If we can go to page 64, again of the core documents, this is the amendment to the Asset Covered Securities Act. And I want to go the point where you say that, despite the fact that the Government, this is a Government recommendation, or a memo to Government, a memo to Cabinet. Despite the fact that you said that you didn't draft the legislation, although it stated in this report that you did ask for McCann Fitzgerald, I think ... yes, McCann Fitzgerald to draft the legislation. You say that something was drafted, but it would have been just points. The final Bill would have been drafted, as you said, by the draftspeople of the Houses of the Oireachtas, but the job that McCann Fitzgerald did on behalf of the IBF in terms of what's said here is the draft legislation, did it look like draft legislation?

Mr. Pat Farrell: Well, I cannot recall at this point, you know, what it looked like in ... at this recall, because we're going back seven or eight years. But, you know, being familiar with where we would retain advisers before to look at particular things, they would have come up with a list effectively of, you know, this item would need amendment to comply with this, this would cross-reference to that, that kind of thing. That was the kind of thing that I would have been familiar with and I would have felt, again ... and I cannot recall sight of the actual document and what would be in it but that that would be the kind of document it would be and the direction of travel of it.

Deputy Pearse Doherty: And it was the IBF who instigated the amendment of this legislation. Do you concur with that?

Mr. Pat Farrell: The trigger for the amendment to the legislation was the pending introduction of the capital requirements directive which was an EU-driven initiative to bring the EU financial services framework into line with and to give effect to Basel II, which was the new method for calculating capital for banks.

Deputy Pearse Doherty: It says here that ... on, again, the memo to Cabinet, “The Irish Bankers Federation approached the Department ... in April regarding changes to the Investment Intermediaries Act”. So were you the trigger ... was your organisation the trigger for this in terms of the legislation?

Mr. Pat Farrell: I won’t dispute the words that are there. All I’m saying is that the legislation had to be changed regardless of ... if IBF disappeared off the map in the morning and didn’t exist, the legislation would have had to be changed to comply with the capital requirements directive, absolutely, unequivocally, no-----

Deputy Pearse Doherty: It’s reported in *The Irish Times* that you wrote to the Finance Minister at the time, Mr. Brian Cowen, on 6 October 2006 about the benefits of building an Irish covered bond market, that it would allow lenders to fund the demand for mortgages. Do you recall that?

Mr. Pat Farrell: Yes.

Deputy Pearse Doherty: Do you ... what’s your view in relation to the fact that these instruments which you lobbied for, allowed for banks such as Anglo Irish Bank to access more wholesale markets that allowed for it to lend into what many people believe was a property bubble at that time in 2007 when the legislation took effect?

Mr. Pat Farrell: And, Deputy, where did Anglo Irish Bank use that legislation for to access the markets? I’m not familiar with that.

Deputy Pearse Doherty: Did Anglo Irish Bank not issue €5 billion of ... did Anglo Irish Bank not ... €4 billion on a covered bond backed by €6.4 billion of commercial property loans?

Mr. Pat Farrell: I’d need to see the detail of that. That’s the first-----

Deputy Pearse Doherty: Did Bank of Ireland use the-----

Chairman: Let the witness answer the question, Deputy.

Deputy Pearse Doherty: Yes, sorry.

Mr. Pat Farrell: Yes, well, I need to see the detail on that. This is my understanding, open to correction: there was an amendment in the updated legislation which included the ability for commercial mortgage to be collateralised and then be issued on the back of a covered bond. First of all, a covered bond is a very highly rated instrument. It has huge legal protections in it and it’s retained on balance sheet, unlike a securitisation which is off balance sheet. So a covered bond is a very good instrument. There’s nothing wrong with it. It’s a very, very good instrument for funding. Let that be on the record.

They asked for the inclusion of commercial mortgages and I think there might have been a general interest more broadly than that. The fact was, across all competing jurisdictions, peer jurisdictions, the ability to include commercial mortgages in covered bonds, where there were covered bonds legislation was already the norm, so we were just, literally, coming into line.

That was legislation of 2007.

The statutory instrument which gave effect to the element that allowed commercial mortgages to be collateralised was placed before this House, I understand, and I'm subject to correction, in mid-2008. At that stage, as we know, events had overtaken us and, again subject to correction, but my understanding is that Anglo - you named the institution - didn't do a transaction under that particular mechanism. I'd also like it to be recorded that, using the covered bonds legislation, it became a vitally important instrument for all of the banks operating here, because it became an acceptable method of collateral to post at the ECB window for liquidity purposes. And we all know how important that actually became because the ECB had certain criteria for liquidity and one of the types of the liquidity they were prepared to accept ... or collateral they're prepared to accept at their window for liquidity purposes were covered bonds.

Deputy Pearse Doherty: Okay. So-----

Mr. Pat Farrell: So covered bonds were critically important.

Deputy Pearse Doherty: But, Mr. Farrell, at the core of the covered bond and the amendment, was it to allow financial institutions to access more wholesale market funding than would be previously available to them? And Bank of Ireland, Depfa Bank, others, have used this Act in the past.

Mr. Pat Farrell: No, I mean, covered bonds were available in the marketplace from 2001.

Deputy Pearse Doherty: Yes.

Mr. Pat Farrell: And what happened in 2007 was to align the legislation of 2001 so that it remained compliant with the new dispensation that was part of the landscape of regulation occasioned by the introduction of the capital requirements directive, which was an EU legislative initiative.

Deputy Pearse Doherty: Can I ask you, Mr. Farrell, in October 2009 you spoke at the Kenmare economic conference where you said in relation to the banks and the crisis, "We built opacity and complexity into the banking model, which truth be told, defied understanding." That was the quote that you had. One of the objectives of the inquiry is to arrive at the understanding at the logic and rationale that underpinned the Irish banking business model. The people who designed the system, who regulated the system and who lobbied for changes to the system were all intelligent and rational people. Can you explain to the committee, what was the rationale for making an Irish banking model, in your own words, complex and opaque? Who benefitted from such a complex and opaque system that was created?

Mr. Pat Farrell: Well, at its core, like, banking is a fairly simple proposition. You just ... you intermediate money. People give you the loan of their money and then you lend it to other people. But it's also a highly regulated sector, so that brings its own levels of complexity and opacity. It's also heavily legislated for and then there's all the governances that flow from the fact that it's an internationally-traded service. I'm not best placed to determine how banking got to the level of opacity and complexity that it did. The fact is, it did. I made that statement in Kenmare. I acknowledge it and, you know, since then the changes that have been undertaken in regulatory frameworks have, to some degree, tried to reduce some of that opacity and simplify it like, for example, the ring-fencing of investment banks from retail banks. And actually that is probably one that speaks to your question which is that investment banking ... banks developed into situations where they became conglomerates, where they were investment banks and

retail banks and, of course, investment banks are notoriously complicated instruments and they are quite a degree of opacity as we learnt through the crisis. I think that spread across banking groups as well.

Deputy Pearse Doherty: Okay, yes, can I ask you finally-----

Chairman: You can ask a supplementary.

Deputy Pearse Doherty: Yes. Can I ask you finally, you told the finance committee on 2 July 2008 that the banks ... the sector was well capitalised, profitable and had strong shock absorption capacity. This was within a couple of months of many of those same banks going bust. Were you aware, as head of the IBF at that time, of issues such as that Nationwide were frozen out from the wholesale market, ECB funding not available to them? Were you aware at that time in relation to the contracts for difference issue and Seán Quinn? Were you aware of the funding difficulties that other members of your organisation had, such as Anglo Irish Bank and Irish Nationwide? Were you aware of their exposure to the commercial property loan book? You know, how does ... how do you feel about that statement and were you aware of those issues at that time?

Mr. Pat Farrell: Well, that's ... that's about ten things you've asked me. If I had ... what my level of awareness was-----

Chairman: We will allow you time to respond, Mr. Farrell.

Mr. Pat Farrell: Yes, I mean, look I said to you before and it bears repeating, that we were responsible for reflecting ... representing the collective interests of the banks. We weren't knowledgeable on or we didn't have access to the details of what was happening in individual banks. Now you cited specifically the Oireachtas committee meeting that I was at. I think an interrogation of that transcript will show that I caveated my statements by drawing on what was acknowledged at the time as good authority and I referenced as my source for my statements, the IMF, the OECD, the ESRI, the Central Bank and the regulator. And you had the Governor of the Central Bank and the regulator at the committee both before my appearance and subsequent, as far as I can best remember, to my appearance.

Chairman: In the 2008 period you're referring to there?

Mr. Pat Farrell: Yes and they made the same statements.

Deputy Pearse Doherty: Yes, but I am asking you a direct question and I understand that you are relying on other agencies to back up your-----

Mr. Pat Farrell: Yes, I relied on other agencies for the statements that were made-----

Deputy Pearse Doherty: But the question I've asked you - when you made that statement about the banks being well capitalised, profitable and strong absorption capacity, were you aware of the difficulties in relation to INBS in terms of the capital markets? Were you aware in relation to Anglo Irish Bank and Nationwide's over-exposure to commercial property? Were you aware in relation to the contracts for difference issues by Seán Quinn?

Mr. Pat Farrell: If there was anything in the public realm, I would have been aware of it but anything outside of that, I would not have been aware of it.

Chairman: Thank you very much. If I can just deal with one matter before we move on

there, it just comes back to my earlier question to Mr. Farrell about the coming together of the chief risk officers and you said that that was structured by the Irish banking authority.

Mr. Pat Farrell: Yes.

Chairman: But was there an authority that gave a direction or an instruction or an advice for you to have that mechanism engaged? Did it come from an official Department or-----

Mr. Pat Farrell: As I recall it, and again, you know, it's quite a number of years back but I would guess that we got a call from the Department of Finance, probably at the level of, you know, assistant secretary, principal officer, saying, "Listen, there's this issue. It's getting a lot of air time. Authorities generally around the world are mobilising to think about what they can do in terms of contingency planning around critical systems, banking being one of them. I think it would be appropriate to gather the banks together and to discuss this issue and try and find a mechanism to deal with it." And they may well have ... as I said, I don't have a particular recollection of being at the meeting but they would probably have attended it. I wouldn't be surprised because, from time to time, the Central Bank or the Department would attend a meeting because they might brief on a particular piece of legislation or an initiative that was under way and it would be an opportunity to brief members on the detail of it.

Chairman: Who got the call? Was it you or a different official in the Irish Banking Federation?

Mr. Pat Farrell: It would be somebody in the Irish Banking Federation. It could have been me. I don't have a particular recollection of it as me. It might have been myself or it could have been our head of prudential regulation.

Chairman: Okay, and was the call-----

Mr. Pat Farrell: Or, head of prudential.

Chairman: Was the call and this request ... was it very, very prescriptive in terms of, forensically you need to look at this, or was it general?

Mr. Pat Farrell: The issue of the moment was the pandemic issue and the need to be able to build contingency plans for essential public services, banking and payments being one of them.

Chairman: Okay, thank you. Sentaor Sean Barrett.

Senator Sean D. Barrett: Thank you, Chairman. And welcome, Mr. Farrell. Can I go back to your answers to Deputies Doherty and Phelan about your e-mail to Mr. Dermot McCarthy? Do you not feel at this stage it was irresponsible to send that kind of request without knowing what it would cost the Irish taxpayer?

Mr. Pat Farrell: Well, I didn't ... I mean, I got a request from Depfa and they asked me to pass on their representation, which I did. I didn't actually have a detailed understanding of what the potential liabilities were that they were asking to be guaranteed but that state of knowledge would have been there within the system that I was representing myself to, which would have been the regulator and the actual Department itself.

Senator Sean D. Barrett: Because, I have a quote from Germany: "Depfa is said to have been responsible for at least two thirds of the HRE losses, well over €200 billion." So, in fact, we would be investigating today €197 billion instead of the €64 billion which ... I mean, aren't

you lucky that the secretary of the Department of the Taoiseach didn't accept your representation?

Mr. Pat Farrell: Well, I know that you're going to have the secretary of the Department of the Taoiseach in following me, but I ... and, obviously, he'll speak for himself but I would doubt that there was any intention at any stage by the authorities here in Ireland, for a moment, to actually contemplate extending the guarantee to those liabilities.

Senator Sean D. Barrett: Well then, the downside is that the episode seriously damaged Irish credibility in Germany.

Mr. Pat Farrell: That's not an area that I can take accountability for.

Chairman: That's fair enough. Senator.

Senator Sean D. Barrett: Right, thank you. The ... You were on the financial services consultative industry panel. What work did that do?

Mr. Pat Farrell: The panel was set up by, I think it was by statute, as part of the legislation that underpinned the Central Bank structure and I think in my witness statement, I mean I ... We were advisory. We could only advise; that was our role. We were, particularly I think, mandated to comment on the budget of the regulator, to ... from time to time, we were asked to comment on maybe particular initiatives that they were planning, regulatory initiatives or otherwise. And I think I outlined ... I don't want to use up the time by repeating but I think I gave a list there in the witness statement of the, kind of, things that we commented on during the time. It was, kind of, a synopsis of the kind of issues that were occupying our attention during the time that I served on the panel.

Senator Sean D. Barrett: And did you know that there were so few people engaged in bank prudential regulation in the country?

Mr. Pat Farrell: I had a consciousness to a certain number of things. I mean, I adverted already to the fact that I noted from very early ... from the time I was appointed CEO that the consumer director sat on the board of the authority, the prudential director didn't. Now, I accept that was corrected.

Senator Sean D. Barrett: No, the question was about the number of people engaged in prudential regulation.

Mr. Pat Farrell: Oh, sorry. I had a consciousness that there was quite a large team of people working on consumer protection.

Senator Sean D. Barrett: No, prudential regulation is the question.

Mr. Pat Farrell: No, you ... Sorry, I'm endeavouring to give some context to my answer. I was also conscious that there was a smaller number of people working on prudential regulation. But can I say to you, Senator, that I mean, the whole backdrop, the whole policy context, the whole focus was on consumer regulation. And I made this point in Kenmare and I got some criticism for it at the time because what I said was that, ultimately, when the public woke up to the reality of what happened, they weren't interested in knowing, "I don't know what a tracker mortgage is", they wanted to know, "Is my money safe?" And what I'm saying is and I think you .. everyone will appreciate and understand this, the ultimate guarantor of the consumer's protections is strong prudential regulation. And my belief was that the starting point for the

focus was too skewed towards consumer and conduct of business and I think the evidence that has been given thus far by Mr. Brian Patterson, by the expert reports have all validated that as well and have remarked upon it.

Senator Sean D. Barrett: The industry paid half the cost of this prudential regulation, isn't that-----

Mr. Pat Farrell: Yes.

Senator Sean D. Barrett: Was there push back in the industry again the, kind of, stronger regulation?

Mr. Pat Farrell: We pushed back about cost and value for money.

Senator Sean D. Barrett: Yes.

Mr. Pat Farrell: But push back on value for money is, in my opinion, credible and legitimate. It's not to be confused with, "Are you prepared to support more resources?" We called out a whole number of initiatives that we thought the regulator should do. Every one of them would cost money. And the chairman at one stage - I can't remember which chairman; there were two - I know was on the public record, I think it's in the public realm as saying that if resources were the issue, the industry would not be found wanting. That was on the basis that we were paying 50% of the fees. Now, by the way, just in relation to 50% of the fees, just to be clear, the 50% of the fees paid by the industry was not the industry's idea; that was what was decided by the authorities at the establishment of the regulator. And there's a whole debate about regulatory capture and whether that can happen as a result of the fees. Other jurisdictions, they chose to fund it from the exchequer.

Senator Sean D. Barrett: You mentioned the ESRI as one of the sources. Did the banks or your federation ever approach the ESRI when they had reports on the Irish economy?

Mr. Pat Farrell: We would be generally aware of those reports when they were published, I don't think we had any significant engagement. Again when I go back to the mandate of the IBF, we did not have an in-house economist, economic analysis was not on our remit and the banks had their own in-house economic units, economic research units and they may well have engaged with the ESRI and other bodies in the economic forecasting arena. Again, I wouldn't have any direct knowledge of that engagement.

Senator Sean D. Barrett: You mentioned Kenmare. I think it's fair to say that the bank economists hardly distinguished themselves in their reaction to Professor Morgan Kelly.

Mr. Pat Farrell: For the record, Senator, and you were there, I was a spectator-----

Senator Sean D. Barrett: Indeed.

Mr. Pat Farrell: -----in the debate that happened between a number of economists and Morgan Kelly; I didn't participate in it.

Senator Sean D. Barrett: But those are the bank economists you mentioned. I mean-----

Mr. Pat Farrell: Well, we all learn, Senator and I mean, you know, one of the debates out of this whole saga is, you know, the need to be more alert and alive to contrarian voices and, you know, that's, obviously, learning that I would take from all of this and I'm sure others would

too.

Senator Sean D. Barrett: The ESRI dropped the articles by independent economists after the Morgan Kelly articles were published; they were dropped from the quarterly economic review. Did banks make any representation in your knowledge to have that series of articles dropped?

Mr. Pat Farrell: I don't know-----

Chairman: If that's guessing information, Mr. Farrell, I'd rather you didn't unless you have an informed that

Mr. Pat Farrell: I don't have any ... I don't ... I'm not in a position to comment on that.

Senator Sean D. Barrett: You did shut down the *Irish Banking Review*, where ... it was a forum where economists and bankers used to meet.

Mr. Pat Farrell: I was thinking you might get to that. The reality of it, Senator, was that the *Irish Banking Review*, we did provide a small support for it and when I came chief executive of the Banking Federation, my mandate was to represent my members unashamedly to the mandate they gave me and I was also required to do it within the envelope of resources available to me. And so I had to look at areas where I didn't feel I fell within my mandate and also the review had been in place for quite a long time. My view was that it had run its course, that's my view. You may well debate it. And we had to reallocate resources and unfortunately that's what chief executives have to do.

Senator Sean D. Barrett: So you didn't have a problem with contrarian views in that journal?

Mr. Pat Farrell: None.

Senator Sean D. Barrett: Or at the ESRI?

Chairman: That's subjective.

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

Chairman: Okay is that completed? Okay, I'm just proposing that we will just take a very short comfort break for about three minutes and resume immediately afterwards. So just to suspend the session temporarily for a couple of minutes. Mr. Farrell, to remind you that you're still under oath and also that any engagement that is there ... is, you're still under direction and you can take any legal advice you wish under that period. Thank you.

Sitting suspended at 2.31 p.m. and resumed at 2.37 p.m.

Chairman: I propose we go back into public session immediately. We continue our engagement with Mr. Farrell, is that agreed? Agreed. Okay, I just want to deal with one question there Mr. Farrell and I'll come back to you in the wrap up there. It's in your witness statement and it's in relation of your witness statement which the IBF to prepare a note for issues raised and circulate to attendees. It's just one, it's a minute of a ... it's a minute of a meeting, if I can get it up on the screen there just for assistance purposes. And I just want to ask you ... I'll just refer to a particular quote on that and then if I can move on from it. You said prior to 29 September 2008, the IBF had no mandate from the IBF council to discuss specific Government

liquidity solvency support initiatives for this sector with the authorities, and was not a party to considerations by the authorities on such matters. Now, the note here ... I just want to refer to that, so in that regard ... however in July 2007 the IBF did participate in a liquidity funding workshop, this was attended by the IBF representatives of the major banks, and a representative of CBFSAI Central Bank Financial Services Authority of Ireland. The summary note of which was sent to Department of Finance, which I think we have here. And can you recall the note of issues that the IBF was committed to producing from this meeting and was this circulated to the attendees? And what were the key issues being discussed at that time?

Mr. Pat Farrell: Okay, Chairman. Well, my ... The outline of what I said still stands obviously, that we didn't get involved in the individual banks ... in relation to liquidity solvency, business models, all that kind of thing. Again, this was a collective discussion. And I haven't seen this before, but to the best of my recollection ... first of all I'm not ... to the best of my recollection I don't think I was at the meeting. I'm, I may ... again I think it would have probably been handled by our prudential director because it would have fallen into that area.

I think the background to it was that at that time, and I did advert to it earlier, there was continuing tensions in liquidity terms across global markets. And at that stage I think some time in 2007 ... around that time ... the Central Bank introduced a new liquidity regime for all the banks. And they required a whole new reporting arrangement with the banks for liquidity. They asked them effectively to put their liquidity requirements as they matured out into different time buckets on a cash flow basis, so that they would have a much clearer line of sight as to what the liquidity requirements of each of the banks were going forward. And that was understandable, given the heightened situation that existed in liquidity markets generally. And, my understanding, that meeting would have been one where the banks would have come together collectively to understand ... or to use that form to understand what exactly the nature of the requirements would be and report in terms, tease out any questions they might have, the detail of it, and such like. And that is ... to the best of my recollection it would be my understanding of the context for the actual meeting.

Chairman: Thank you very much. The next questioner is Deputy Kieran O'Donnell. Deputy, ten minutes.

Deputy Kieran O'Donnell: Thank you, Chairman. Welcome, Mr. Farrell. Mr. Farrell ... this is reference, Chairman, to Mr. Farrell's book of evidence, page 27. You might put that up on the screen, please. And it relates to the Regling and Watson report and more particularly it relates around that the Regling and Watson, that:

[The] setting of macro-economic ease in growing financial integration, bank managements in Ireland faced new major opportunities. However this environment also entailed challenges for [banks, particularly around the area of] governance.

And Regling and Watson report goes on to say that the challenges weren't met by the banks and "Errors of judgement in bank management and governance contributed centrally to Ireland's financial crisis." The questions for Mr. Farrell are: was the Irish Banking Federation aware of these challenges its members faced? And if not, did they feel that the IBF was fulfilling its mandate and was representing the sector's interests accurately? And before you departed from the IBF in June 2013, what had you put in place to ensure that the IBF could accurately represent the sector's interests and ensure banks met future challenges regarding banks' governance? So it's really around the whole area of the day-to-day governance and the challenges that brought.

NEXUS PHASE

Mr. Pat Farrell: Well, first of all ... I go back again to the fact that IBF is the representative body; it is not a regulator; it doesn't have a legislative mandate to be a regulator; it doesn't have the resources to operate in the sphere of governance and to provide challenge or direction to banks around governance. That's absolutely not its mandate. That is the mandate of the regulatory bodies that are charged with actually regulating the sector and all of the other authorities around corporate compliance-----

Deputy Kieran O'Donnell: And what was your annual budget?

Mr. Pat Farrell: Our annual budget was about circa €3.5 million.

Deputy Kieran O'Donnell: And did that come from all the banks?

Mr. Pat Farrell: Yes.

Deputy Kieran O'Donnell: In its entirety?

Mr. Pat Farrell: Yes.

Deputy Kieran O'Donnell: Okay.

Mr. Pat Farrell: And that allowed us, as I said, to retain some professional services, as we needed from time to time, and to pay the team of people that we had. What changes did I make? I go back again to the situation that from the very outset the whole environment, the discourse, the context for everything that happened in regulation was heavily weighted towards consumer conduct of business rules. In fact, when I think about all of my engagements with Oireachtas committees, I'd say 90% - up to the crisis - were all about consumer conduct of business-related rules. There was very little, if any, discussion about prudential matters. So there was a consensus around that the area that the focus was going to be, from a public interest point of view and from the regulator's point of view was consumer, consumer, consumer. That, kind of, led. So, as us ... as a representative body having to face off against regulatory authorities and so on in terms of representing members' interests, the majority of our skill sets and the people that we employed were in that space of consumer conduct of business. And even some of the things we did which we're, you know, probably associated with - like the switching codes, consumer protection codes, the debt relief protocol with the Money Advice and Budgeting Service - they are all testament to the fact that a lot of our output was in that whole space.

Post the crisis I was challenged, my team were challenged, to adopt to the change in environment, so we had to re-skill the team that we had. We brought more people in with more knowledge of prudential matters. We hadn't a head of prudential *per se*, I don't think initially, when I was appointed. We had a head of wholesale, which is something different-----

Deputy Kieran O'Donnell: Well, in the limited time I have-----

Mr. Pat Farrell: Yes, yes.

Deputy Kieran O'Donnell: -----what would you say were the two key things, differences that you brought in and their impact?

Mr. Pat Farrell: I think their impact was that we ... changed the skill sets with people to make sure that we had a proper diversification of the resources that we needed to cover all the bases that were important from a banking regulation point of view. That was one big thing. And I think the second big thing that we did post the crisis is that as ... in my own right and on

behalf of the sector, I took a much more active public role in terms of trying to provide reassurance and communicate more strongly what banks were doing as a consequence of the crisis to try and support people who were in financial distress.

Deputy Kieran O'Donnell: Can I go back to just your role pre the crisis with the banks?

Mr. Pat Farrell: Yes.

Deputy Kieran O'Donnell: Would you describe yourself as very much a hands-on type of CEO?

Mr. Pat Farrell: I had a team of people that looked after various areas and I tended to delegate for them, so I would say that I was hands-on where I needed to be but, in the main, I would've delegated the work agenda to the appropriate people. I believe in letting people get on with their work.

Deputy Kieran O'Donnell: And were you representing the collective interest of the banks?

Mr. Pat Farrell: Yes, I believe so.

Deputy Kieran O'Donnell: Okay. Was there ... did you appear before an Oireachtas finance committee in July '08 - and I remember it because I was on the committee at the time - about the issue of the drying up of credit for the SME sector? That was the specific issue. Did you pre the night of the bank guarantee, consult with your member in terms of how they were doing, in terms of their liquidity requirements? Was there any contact with bankers with you prior to the guarantee saying that they had difficulties? Did you have any contact with either the Department of Finance, regulators or Ministers or Government officials pre the guarantee?

Mr. Pat Farrell: Sorry, did I have any-----

Deputy Kieran O'Donnell: Contact. The question of ... you're saying that you had no knowledge on the night of the guarantee. You were in in July '08. You were fully aware there was a problem with liquidity. You were representing the collective interests of the banks. Did you have any meetings or consultations with your members prior to the guarantee about the difficulties they were having? And did that lead, in any way, for you to have discussions with Department of Finance officials, regulator officials, Ministers, regarding the requirements of the banks and difficulties they were undergoing?

Mr. Pat Farrell: Yes, I want to be very specific now in answering this question because I mean it's important. I mean, there's a number of dimensions to that. We were all aware of the fact that there was a liquidity challenge globally and it impacted here. It was in the public realm; it was being reported on a regular basis. Wholesale markets were drying up. So, of course, I was conscious of that. As regards the situation closer to home, we had that liquidity meeting with the Central Bank where they were, obviously, showing concern and they were actually asking for a more regularised format of reports, so I was conscious of that. Was I having meetings with individual banks about their individual liquidity positions and how they were fixed? No.

Deputy Kieran O'Donnell: Was there any meeting where the banks would have come to you pre the guarantee and said, "We've a problem here, Mr. Farrell; we need you to represent to Government the difficulties we're undergoing", in your representation role?

Mr. Pat Farrell: Not to my recollection. I mean, there would have been a general con-

sciousness among banks, and it would have been in the discourse at meetings, that liquidity was a challenge *per se* for the sector, but not at the level of an individual bank.

Deputy Kieran O'Donnell: Would you have been making the Minister for Finance known, or the Taoiseach known, about the difficulties the banks were undergoing, pre the guarantee?

Mr. Pat Farrell: Not that I can recall.

Deputy Kieran O'Donnell: Do you think you should have in your representational role?

Mr. Pat Farrell: Well, you see, we have to go back here to what speaks to good authority and good authority is a regulator, the Department of Finance and those that have significantly more resources than I would have, and have a specific mandate to oversight banks, to-----

Deputy Kieran O'Donnell: So you, your represent-----

Mr. Pat Farrell: No, no, sorry, to oversight banks and to actually ... to oversight banks and to examine their liquidity policies on a bank-by-bank basis, having the legislative mandate and the capability to do it which I-----

Deputy Kieran O'Donnell: But in your representational role as CEO of the Irish Banking Federation, you would have not had any meetings with Government, in any shape or form or effort, pre the guarantee about difficulties the banks were under?

Mr. Pat Farrell: I'm not saying that I didn't have, in the course of meetings, that we didn't touch on the subject of liquidity because liquidity was all around us, so, you know, I mean, it's not black and white here. But the bottom line is I don't recall having any specific meetings with the people that you call out around the specific liquidity issue and this bank, this bank, this bank or this bank, other than that there was a general challenge across the system in terms of liquidity.

Deputy Kieran O'Donnell: Can I ask you just a very quick question and going back to your time in EBS and the SSIA accounts - EBS were the forerunners of those. Were you involved in any way in terms of putting forward a case to Minister McCreevy as to EBS, the type of policy, SSIA products they put in place?

Mr. Pat Farrell: I do recall at the time that there was general discussion about products that would be attractive in terms of fostering the whole savings habit. I think there was internal discussion in EBS at the time about the concept of some, kind of a, saving scheme - not to the detail I don't think of what emerged as the SSIA scheme. And I do recall having engaged with both the Minister and, indeed, the Department about the proposition, broadly, of there being some kind of a savings scheme that would be incentivised in some way.

Deputy Kieran O'Donnell: And you, in your role in the banking federation and so forth, do you in any way see did the SSIA accounts gave rise to a situation where the banks got increased deposits, and were effectively subsidised by the Irish taxpayer to the tune of 25% interest on top, sorry, 25% of the capital sum on top by way of a payment, and that allowed the banks to increase their loan-to-deposit ratios, and that, what was money... which was savings by people that were probably not investing in property, ended up fuelling property lending?

Mr. Pat Farrell: Well, as far as I recall it, it was the actual savers that benefitted from the State element of it.

Deputy Kieran O'Donnell: They gave the banks the deposits to be able to-----

Mr. Pat Farrell: No, but it was the savers that benefitted, Deputy.

Deputy Kieran O'Donnell: No, did it boost the deposit base on the balance sheets of the banks?

Mr. Pat Farrell: It certainly allowed the banks to have a better ratio in terms of the reliance on retail savings, which is a good thing, because we all know, and we know particularly since the crisis, that the higher the ratio of retail sales-----

Deputy Kieran O'Donnell: The loans-to-deposit ratios went higher ... sorry.

Chairman: I need you to wrap up now. I think the summary question is that because there's more cash being on deposit, does that facilitate further credit in the market?

Deputy Kieran O'Donnell: And property lending.

Mr. Pat Farrell: I don't think anybody has particularly cited that out on good authority, that the SSIA scheme created any, kind of, boom in lending or fuelled further the property market. I'm open to ... if that has been chronicled in evidence, but I haven't seen it.

Chairman: Okay. Thank you very much, Deputy. I'm going to just deal with a couple of questions myself, Mr. Farrell, and then I'll invite both Deputy Doherty and Deputy Phelan to wrap up. Mr. Farrell, you represented both banks operating domestically and international banks, and those operating in the Irish financial services centre. In your opinion, was Irish financial regulation policy geared towards the development of the Irish financial services centre? And I'd like, maybe, how you would comment on how this impacted on the level of intrusiveness of regulation which might be targeted upon domestic banks as a result of a growing financial centre on the quays.

Mr. Pat Farrell: That's a good question, Chairman. I know that that has been a topic here, and it has been explored with some of the previous witnesses. I think the conclusion of Nyberg, the conclusion of Honohan, and, indeed, of Patterson and others, has been that while there was a clause, if we'll call it that, in the mandate of the Financial Regulator, that said it should promote financial services, that the overriding mission statement was to promote and secure financial stability. I think that, without misrepresenting them, I think they all pretty well said that that did not become a barrier to good regulation. They also ... I think again, it has been said here that we work within an EU-wide framework of regulation so it had to be applied without fear or favour regardless whether it was international or domestic bank. So, to the net point, I don't believe it did; I think there's a, kind of, narrative out there that says otherwise, but I don't think the evidence supports it.

Chairman: Okay. And maybe just to test that proposition further, in earlier testimony, I think it was Mr. Roux from the Central Bank who was here, and, a line of questioning developed with him that the principles-based regulation, which is the formal term for what later became colloquially known as light-touch regulation, was an international rule; it wasn't just specific to Ireland. But the interpretation of principles-based regulation may or may not have been applied in the appropriate way that they may have been in other jurisdictions, given the level of indebtedness and the impact of the financial crash in this country. In any way, was the establishment of the Irish financial services centre a vehicle by which the interpretation of principles-rules regulation was applied differently in this country to other jurisdictions?

Mr. Pat Farrell: Again I think I defer to the experts, but I think in their evidence here, none of them, I think, concluded that. I mean, there was lots of evidence ... there's a debate about how much power the Financial Regulator had, and the Financial Regulator - and again I think it speaks to the evidence that's been here before - had quite a range of powers which were never utilised. It had sectoral concentration limits which were, in their own words, "in abeyance"; it had the ability to raise capital limits for certain types of lending; it had the ability to rely on a compliance statement under company law, which was never actually called in; it had the ability to apply sanctions to the administrative sanctions regime for prudential matters, but it only ever applied them in the case of consumer. So, I don't know what that speaks to, but I do know that, as I said, there were powers there but, as to ... what was the context for their application, non-application, I am not sure. I don't believe it was because of the fact that there was a financial services centre here. I mean, London has a major financial services centre; other centres, Luxembourg, they had issues during the crisis. It didn't lead to the kind of level of crisis that we experienced in this country.

Chairman: Okay, thank you very much. I'm going to move to wrapping things up, so if I can invite Deputy John Paul Phelan, just for three minutes, then Deputy Doherty for three minutes. Thank you.

Deputy John Paul Phelan: Just a couple of issues, Chairman. Referring to your opening statement, Mr. Farrell again, it may have been slightly touched on earlier, but I want to quote from it. You say that you "noted early on that the Consumer Director sat on IFSRA's board whilst the prudential director did not". When did you notice that, as a matter of interest, and why did you specifically reference this in your opening statement?

Mr. Pat Farrell: It's, kind of, hiding in plain sight, because, I mean, it's been referenced by almost every expert that's conducted an investigation into these events. I think it has been referenced by a number of the witnesses who were directly involved in regulation that, with the benefit of hindsight perhaps, there might have been more emphasis on the consumer conduct of the business side. That is the direction that was set. The people involved were merely working according to the mandate they were given, but that was the mandate, and I suppose, the old adage, we have to constantly remind ourselves about like, that the ultimate guarantor for the consumer is sound prudential regulation.

Deputy John Paul Phelan: Did you raise any concerns about that at the time, that the prudential director wasn't on the board?

Mr. Pat Farrell: I did attempt ... I always tried to keep our focus on prudential, but then, you know, we were ... to a degree, we were a creature, in a sense, of the system that we worked with so, you know, our focus, ultimately, moved more towards consumer protection-type matters because that's where the direction of travel was in regulatory terms.

Deputy John Paul Phelan: Okay, and was there any discussion with members of the federation?

Mr. Pat Farrell: We did call it out ... sorry, we did call it out and I refer to it in my statement, actually, and it also is redolent through all of the financial services consultative industry panel reports, where we did on a number of occasions call for a review of the allocation of resources between prudential and consumer. We also called out the fact that there was feedback from firms, particularly more complex firms, that they would have a desire that there would be more a focus put on ensuring that the people who were regulating them would have a deeper

and more detailed understanding of their actual particular business models. So there were some comments and observations made in that space.

Deputy John Paul Phelan: Briefly, you said prior to the guarantee there was up to 70 institutions members of the federation. Post-guarantee ... the time you left in 2013, how many, roughly?

Mr. Pat Farrell: Well, a lot of - and I referred to it in my statement - I think, a lot of the foreign banks who had established a retail presence in Ireland had at that stage exited, or were in the course of exit. Exact number, I suppose, in essence we were probably down to the indigenous banks, and, in the IFSC, there was some retrenchment as well, because what happened internationally was that as all banks came under pressure, there was a political desire ... I'm sorry there was political momentum and there was momentum within the banks themselves to retrench to their home markets. In other words, let's stick to the knitting, let's look after the core markets and the customers of those core markets, which meant that a lot of subsidiary activity, IFSC, tended to run down or be closed. I would say, and I think it's important to say it, like, the IFSC is not an abstract, kind of, concept. As we speak, like, the IFSC employs about 35,000 people, generates about €2 billion in corporate and payroll taxes, and, just by way of putting that in context, it's the equivalent of the vote for 2015 for the Department of Agriculture, Marine and Food, and for the Department of Children and Youth Affairs. So it is a substantial contributor to the Irish economy.

Deputy John Paul Phelan: It is, indeed. Finally, we've heard evidence from other witnesses in relation to potential change in Government policy with regard to directors' compliance statements, and lobbying that was undertaken by the banking federation with regard to those changes. Can you briefly, in a minute or so, outline the extent of the contact that you would have had with the Minister at the time, I think Mr. Cowen, and maybe with officials in the Department?

Mr. Pat Farrell: I think the record shows by correspondence, I'm not sure, if it's the same one we're talking about, was in relation ... was with Mr. McCreevy, was it? There's reference in the letter of 2004 where we comment on the Central Bank and Financial Services Authority Bill, we talk about the compliance statements there. Is that the-----

Deputy John Paul Phelan: Yes-----

Mr. Pat Farrell: Probably is the reference.

Deputy John Paul Phelan: It may have overlapped between the two of them, I think.

Mr. Pat Farrell: Yes. Well, just briefly, the compliance statements were being brought forward as a specific provision specifically for banks and there was already an existing compliance statement capability in the Companies Act and our view at the time, which I think was a legitimate view, was that there was potential for duplication. I think where the thing ... I think where it finished up was and I think there is correspondence to this effect and I think it may have been referred to as well in the evidence that's been given thus far by some of the Finance people, was that the Department decided not to proceed with the compliance statements specifically to financial institutions because it was forming the view that there was adequate reliance could be placed on the provision of the compliance statement of the Companies Act and it also directly and pointedly, I think, communicated at the time to the Financial Regulator, that they did have this power, they did have this provision and they could rely on it if they required a

compliance statement. Let the record show that, as again, it's open to correction, but as from my limited investigation of it, I don't think that particular provision, i.e., seeking a compliance statement from a financial institution under the provisions that were there, was ever activated during the period.

Deputy John Paul Phelan: Okay. Thank you.

Chairman: Thank you. Deputy Doherty.

Deputy Pearse Doherty: Go raibh maith agat. Mr. Farrell, was the IBF involved in corporate hospitality to anybody in the Central Bank or-----

Mr. Pat Farrell: Corporate hospitality? I mean-----

Deputy Pearse Doherty: -----outside of the dinner that you organised for the bankers?

Mr. Pat Farrell: No. I mean, the Institute of Bankers, which would be, if I call it a sister organisation, but it's involved in training and education, had an annual dinner which was a fixed event ... a fixture ... an annual fixture, I should call it, where they would invariably ask for the Minister of the day to attend and to speak ... or somebody like that, it could be the regulator or whatever and, you know, that it would be a situation where nearly ... a lot of financial service people would be in attendance and then there would be other ... there were seven representative bodies associated with financial services and they would have similar type events.

Deputy Pearse Doherty: But that's your annual dinner yourselves. In terms of like, for example, the dinner for Mr. Patterson, is that, was that the only event where-----

Mr. Pat Farrell: We had an annual lunch for the Federation of International Banks in Ireland, which again would be attended by a couple of hundred people, and would be focused on the banks in the International Financial Services Centre.

Deputy Pearse Doherty: But what about the people within the Central Bank? Did you ever extend corporate hospitality or pay for lunches or dinners or outings?

Mr. Pat Farrell: No, not that I can recall. I mean, we might ... you know, you might some time have a lunch with somebody and pay for it or they might pay for the next time, but nothing more than that.

Deputy Pearse Doherty: You had no set piece events where you could invite others-----

Mr. Pat Farrell: No, not that I can recall.

Deputy Pearse Doherty: Can I go back to questions I was asking in relation to your statement about the banks being well capitalised, profitable, strong and able to withstand the shocks that were coming? You mentioned that you weren't aware of anything that wasn't in the public domain. So, I want to go back to some of these positions. So, for example, in relation to Anglo and the contracts for difference and we know that in March of that year, three months before you made this statement, that it was already seeping out to sectors that there may be an issue and that some people suggest that was the reason for the St. Patrick's Day massacre. Was the IBF aware of this or not?

Mr. Pat Farrell: Honestly, I have no recollection of that and I'd be testing the assumption that it was seeping out in particular sectors. I mean, maybe as a public representative, you were

aware of it. Public representatives have exceptional and very good listening posts. They enjoy that privilege by virtue of the mandate they have. That isn't to say that I would have it. I don't have any recollection of any particular knowledge of that particular subject, other than it would have been in general discourse or in the public domain.

Deputy Pearse Doherty: Okay. So when did you first learn of the issue of the contracts for difference?

Mr. Pat Farrell: I honestly ... I honestly don't know. I mean, I would presume the first I knew of it is when it became a reported item in general discourse.

Deputy Pearse Doherty: Okay and in relation to the overexposure of the property market, when did you become aware of that in terms of ...?

Mr. Pat Farrell: Again, you know, when it would have been reported in general discourse.

Deputy Pearse Doherty: But you do your own reports. Like, you do own-----

Mr. Pat Farrell: No, we don't do our own reports, Deputy, and-----

Deputy Pearse Doherty: And you've not done any reports in terms of lending or anything in relation to that?

Mr. Pat Farrell: We did regular quarterly reports on the level of mortgage lending into the economy. We reported it factually. We said "Last month, this number of mortgages were written to this amount" and then next quarter, we did the same. We were not the regulator, Deputy.

Deputy Pearse Doherty: I'm not suggesting you were.

Mr. Pat Farrell: We didn't ... no, but I mean, the only reason I ask that is because it's sort of to me speaks to the fact that we had some kind of deep tentacles into individual banks where we were able to have oversight and drill down into their balance sheets, their business models ... there is no mystery here. I mean, we were a representative body, just like the IFA represents the farming community but do they have deep knowledge of individual farm enterprises and what's happening within those individual enterprises?

Deputy Pearse Doherty: Okay. That's fine. I just want to know your level of awareness in terms of the sector that you're representing. The final question is, again I want to go back to this issue that was ... that I discussed in my opening remarks and it's page 83. You mentioned that you were just passing on, this in terms of what could be suggested as lobbying in relation to Depfa Bank, you said you were passing on representations received from Depfa Bank and I would ask you just to, if we can pull it up on the screen, it's page 83 of the core booklet. Can you point to me in that e-mail to Dermot McCarthy where the representation from Depfa Bank is that you passed on?

Mr. Pat Farrell: Sorry, I'm not clear on the question, Deputy. What-----

Deputy Pearse Doherty: Okay. Is it your contention that this representation to Dermot McCarthy of the Department of the Taoiseach was passing on representations that you received from Depfa Bank? That's my understanding of the evidence that you provided here before.

Mr. Pat Farrell: No, there was obviously a note which we sent to our ... the head of our wholesale banking ... was sent to people within the Department of Finance setting out the back-

ground, the issues and I passed that on to Dermot and asked for his support on it.

Deputy Pearse Doherty: But you passed on a lobby from the IBF to Dermot McCarthy, not something from ... you weren't acting ... you suggested that you were representing the industry and you were passing on a lobby from the industry to the Department of the Taoiseach.

Mr. Pat Farrell: I was-----

Deputy Pearse Doherty: But there is no ... there is no lobby here from the actual individual bank. It's an e-mail from yourself looking for support for an e-mail from the IBF looking for Depfa Bank.

Mr. Pat Farrell: I may be conflating two things but I thought that I did see in some of the evidence thus far or something recollection to the fact that Depfa Bank itself was making its own representation directly at the same time too.

Deputy Pearse Doherty: Yes, but can we just stick to the e-mail and the lobbying that you may have been involved in? Do you acknowledge that there is no representation in this e-mail from Depfa Bank or, indeed, any other institution in this e-mail and the stream of e-mails?

Mr. Pat Farrell: I'm not clear on what the question-----

Deputy Pearse Doherty: Well, the question-----

Mr. Pat Farrell: -----I mean, Depfa were making representations.

Deputy Pearse Doherty: I'm aware of that. But the point I'm ... and the point I'm getting at, Mr. Farrell-----

Mr. Pat Farrell: And Depfa made representations to me.

Deputy Pearse Doherty: Yes.

Mr. Pat Farrell: So then I passed on those representations to-----

Deputy Pearse Doherty: But there is ... where ... point to me where you passed on those representations. This is an e-mail, which shows that you're looking for support from the Department of the Taoiseach to support a representation from the IBF to include Depfa and another bank under the guarantee. The question I'm asking: how are you saying that you're passing on representations? There is no ... it doesn't ... there is no representation here from Depfa Bank in this e-mail.

Mr. Pat Farrell: We'll have to disagree. I mean, I was conscious that Depfa were making ... had representations to us.

Deputy Pearse Doherty: Yes. But ... how did you pass them on, is my question?

Mr. Pat Farrell: Through the detail that's in the e-mail.

Deputy Pearse Doherty: And that detail to ... the e-mail is from the IBF not from Depfa? It's signed by-----

Mr. Pat Farrell: Yes, but it would have been informed, obviously I'm sure, by discussions with Depfa and the other affected banks, yes.

Chairman: Let me just clarify this. I suppose, it's a very simple ... I see where Deputy Doherty is coming on this. Are you stating a position that this is Depfa's position or are you advocating Depfa's position? Because in the statement to Mr. Farrell it says, it's the third line down, there under the word "Kevin", "We believe that support for ACS is now of significant importance and urgently request some statement of political support as per the German example."

Mr. Pat Farrell: Yes.

Chairman: So, like that would ... could be construed as an advocating position, rather than just a statement of fact that somebody has a difficulty here, can you make a position on it?

Mr. Pat Farrell: Well, my belief is we were ... they had a difficulty and we were making the ... we were making the people who were communicating aware of it and I think, you've hit on a good point in terms of political support because what happened in the German situation was that there was a statement of political support which was simply that: political support. It didn't carry any consequences and it didn't imply a legal guarantee. And that's what had happened in Germany.

Chairman: Deputy Doherty, and we will wrap up then.

Deputy Pearse Doherty: Can I ask you, the original representation to the Department of Finance was on 14 October looking for Depfa to be included in the guarantee. You then issue a two-liner looking for the Department of Taoiseach's general secretary to support the request that was made the day before. What was ... what instigated ... what happened between half past three on 14 October and the time, the following morning, when you sent the subsequent e-mail? Was there a rejection or ... of the original e-mail? Was there a negative response that you felt you may needed to raise this with the general secretary of the Department of Taoiseach or what was the ... what instigated a further communication at, what may be seen as a ... more higher level, more senior level, from yourself?

Mr. Pat Farrell: At this stage - and as I say it's seven years later - I would not be able to recall what the detail of it was, whether we had had any communication back from the Department or not, and I'd be only speculating to do otherwise.

Deputy Pearse Doherty: Do you ... did you not, then ... can I ask you, finally, the original e-mail, which spells out why Depfa Bank and WestLB should be covered under the guarantee, did you not feel that that fulfilled the obligations of the Irish Banking Federation to represent, to represent the interests of the bankers which you represent?

Mr. Pat Farrell: Well, I, I already ... I already explained the context for making Mr. McCarthy aware of it, which was because of the fact that he had a particular position, which was chairman of the Clearing House Group, and this was an IFSC bank.

Chairman: I'll need to end this there, Deputy. With that said, is there anything you'd like to say by means of a closing comment, Mr. Farrell?

Mr. Pat Farrell: I'm fine, thank you very much. Thank you for the-----

Chairman: So, with that said, I'd like to thank Mr. Farrell for his participation today and for his engagement with the inquiry, and to now formally excuse the witness. In doing so I propose that we suspend until 4 p.m. I propose that we suspend until 4 p.m., to return in private session until 4.30 p.m. and then we'll deal with the engagement with Mr. McCarthy subsequent to that.

Okay, is that agreed? Agreed. Okay.

Sitting suspended at 3.12 p.m. and resumed in private session at 4.10 p.m. Sitting suspended at 5.28 p.m. and resumed in public session at 5.46 p.m.

Department of the Taoiseach - Mr. Dermot McCarthy

Chairman: So we now commence our next public hearing with Mr. Dermot McCarthy, former general ... Secretary General, Department of the Taoiseach, and Secretary General to the Government. The Committee of Inquiry into the Banking Crisis is now resuming in public session. And can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? The ... as ... at our session now this evening, we will commence ... or hear from Mr. Dermot McCarthy, former Secretary General at the Department of the Taoiseach and Secretary General to the Government. Dermot McCarthy served in the Department of Industry and Commerce and at the Department of Health, where he rose to the level of assistant secretary general. He was appointed as Secretary to the Government in January 2000 and combined that role with Secretary General at the Department of the Taoiseach in July 2001. He retired in June 2011. Mr. McCarthy, you are very welcome before the committee today.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2) (I) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect to their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. And I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. The utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. And members of the public and journalists are reminded that these are documents and that they are confidential and 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 if I can now ask the clerk to administer the oath to Mr. McCarthy please.

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

Mr. Dermot McCarthy, former Secretary General, Department of the Taoiseach, and former Secretary General to the Government.

Chairman: Okay, once again, thank you, Mr. McCarthy, and if I can invite you to make your opening statement please.

Mr. Dermot McCarthy: Thank you, Chairman. The scale and impact of events which are the subject of this inquiry are such that the work of this committee constitutes an important public service. I wish to support fully the committee in its work by answering your questions