

# HOUSES OF THE OIREACHTAS

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

### JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

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*Dé Céadaoin, 9 Meán Fómhair 2015*

*Wednesday, 9 September 2015*

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The Committee met at 9.30 a.m.

#### MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

**Chairman:** Okay. I thank you. With that said, once again, to thank you, Mr. Ahearne, for his participation today and in the earlier process in the inquiry as well. With that said, I now wish to formally excuse the witness and propose that we return at 3.10 p.m. is that agreed? Agreed. So the witness is now excused and we're formally suspended until then, thank you.

*Sitting suspended at 2.23 p.m. and resumed at 3.30 p.m.*

### **Central Bank of Ireland - Mr. Alan Gray**

**Chairman:** I now propose that we return back into public session for our third session of today. Is that agreed? Agreed. Okay. As we can now commence our public hearings with Mr. Alan Gray, former board member of Central Bank of Ireland, 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?

Our first hearing of this afternoon is with Mr. Alan Gray, former non-executive director, Central Bank of Ireland. Alan Gray has worked as an economist for over 30 years in Ireland, Europe and in Canada. He was a non-executive director of CBFSAI, that is, the Central Bank, from December 2006 to September 2008 and was ... and recently he has been appointed by the Government as director of the IDA. He is a managing partner of Indecon International Economic Consultants. Mr. Gray, you're very welcome before the committee this afternoon.

**Mr. Alan Gray:** Thank you, Chairman.

**Chairman:** Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you're entitled thereafter only to a qualified privilege in respect of your evidence. You're 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. In addition, there are particular obligations of professional secrecy on officers of the Central Bank in respect of confidential information they have come across in the course of their duties. This stems from European and Irish law, including section 33AK of the Central Bank Act 1942. The banking inquiry also has obligations of professional secrecy in terms of some of the information which has been provided to it by the Central Bank. These obligations are being taken into account by the committee and will affect the questions asked and the answers which can lawfully be given in today's proceedings. In particular, it'll mean that some information can be dealt with in a summary or aggregate basis only, such that institutions or individuals will not be identifiable.

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 your screens to your left and right and members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

## NEXUS PHASE

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. With that said, if I can now ask the clerk to administer the affirmation to Mr. Gray, please.

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

Mr. Alan Gray, former Non-Executive Director, Central Bank of Ireland.

**Chairman:** So, once again, Mr. Gray, I thank you for your attendance here today and if I can invite you to make your opening remarks to the committee, please.

**Mr. Alan Gray:** Chairman and members of the inquiry, as an independent economist I believe-----

**Chairman:** Can you lean closer to the microphone there, Mr. Gray, if you don't mind?

**Mr. Alan Gray:** Sorry.

**Chairman:** Or maybe just turn it a small bit towards you. Perfect. Good man, thank you.

**Mr. Alan Gray:** Thank you. Chairman and members of the inquiry, as an independent economist, I believe that major mistakes were made resulting in the economic, fiscal and banking collapse. To help understand what happened and why, I have submitted new evidence which I hope will help the inquiry.

I am head of economic research with an independent Irish economic practice. I joined the board of the Central Bank in 2007 as a non-executive director. I am on the Government's labour market council and I'm a director of the IDA and chairman of London Economics.

My work as a professional economist has given me the opportunity, since the 1980s, to offer impartial advice to consecutive Labour, Fine Gael and Fianna Fáil Governments and to governments internationally. When I provide any informal advice to Irish Governments or serve on State boards, I request that I do not receive fees or expenses, a practice which is not unusual for economists.

My statement and supporting material comprises extensive notes and documentation I prepared at the time. I ask the inquiry to excuse any references to publications that I have written. These are not to give these publications particular significance but to confirm views I've held at key periods. As well as the banking crisis, I have provided evidence on a number of matters of public interest, including the meeting on unemployment with An Taoiseach on the morning of 28 July 2008 - I should say with the then Taoiseach - and the continuation of the discussion over dinner at Druids Glen. These show that I expressed concerns on the economy at the meeting and I suggested actions to prevent an even more rapid decline. I have provided the 11 pages of detail notes I circulated at the discussion and I would be happy for the inquiry to release those notes and all of the approximate 80 pages of evidence I have submitted.

I turn to the causes of the crisis. Before addressing the significant Irish mistakes, I would like to briefly note the design flaws in the single currency and the impact of the bankruptcy of Lehman's. In considering why there was a crisis in Europe, the Nobel Prize winning economist, Professor Krugman, concluded:

The truth is that the story is mostly monetary. By introducing a single currency without the institutions needed to make that currency work, Europe effectively reinvented the defects [...] that played a major role in causing [...] the Great Depression.

The design flaws in the single currency were particularly significant for Ireland due to our dependence on trade and the declining competitiveness. In a publication I edited prior to Ireland joining the euro, one of my academic collaborators, Professor Jeffrey Sachs, then at Harvard University, concluded that, “This is surely a big risk for a small country that is dependent on export-led growth - perhaps even too big a risk.”

One concern I hold is that the required European institutions and policy instruments may not yet be in place, and complacency exists about this inadequacy. The ideologically driven US decision on 15 September 2008 to let Lehman Brothers go bankrupt resulted in an international banking crisis of a scale not seen since the 1930s. The combined impact of the Lehman collapse and design flaws in the single currency had horrendous implications for Europe. The larger lending countries and international agencies tend to downplay these two factors and shift most of the blame onto peripheral countries.

Central Bank directors are understandably reluctant to criticise the international institutions, particularly given their extensive funding support for Ireland. However, I believe the decision of these institutions to prevent Ireland from burning the bondholders and requiring Irish taxpayers to then bear the cost was morally indefensible. This forced a small state to socialise losses and impose the burden on ordinary working people, while private sector gains were protected.

Reference to the design flaws in the euro and the Lehman’s collapse is not to deny the scale of the Irish mistakes. An unpredictable and once-in-a-century external crisis was made much worse by a gross over-dependence on the construction sector and by a failure of bankers, policy makers and regulators to adequately respond to the risks. In my view, the key Irish mistakes were mistakes in lending decision by banks, the failure in the regulation of banks, the impact of Irish macroeconomic policy and intervention in the property sector. The lending decisions made by individual banks provided loans to developers and others which turned into bad debts. I believe this was the fundamental driver of what happened in Irish banks. There was also a failure of bank regulation and deficiencies in stress testing and macro-prudential policy. Detailed stress tests were undertaken but failed to anticipate the scale of the impending crisis or the level of increased capital needed. In the aftermath of the guarantee, I felt the banks were still in denial of the necessary capital requirements. Writing to the Department of Finance and the Central Bank to provide a contrary, external perspective, I said the banks’ own assessment has indicated that they may have sufficient capital to meet regulatory requirements after dealing with anticipated bad debts and that PwC reports suggest that, under certain scenarios, this may be the case. My letter states that I do not accept this and concluded that action on capitalisation is needed and as soon as possible.

In addition to deficiencies in the interpretation of stress testing, there was insufficient regulation of banks and inadequate capital requirements, particularly in the period from 2000 to 2007. Accurate information was not obtained on major borrowers dependent on property and I raised this at board meetings. More intensive involvement in the approval of directors of banks would also have been appropriate. At my very first board meeting in 2007, a new policy was outlined to dampen the growth in the property sector. This new measure required the banks to increase to 150% the capital requirement for lending to speculative property. It was suggested that speculative lending could then only happen after 50% of the property value had been pre-sold. Not surprisingly, as an economist I was very supportive of this revised action as I felt it

was beginning to respond to the risks. However, I accept this proved far too little and far too late to address the scale of the crisis which emerged.

Regulatory weaknesses did not cause the crisis but they did not do their job and did not prevent the crisis. This weakness was not due to the absence of supervisory powers and these cannot be used as an excuse for the misjudgments about endogenous risks and the failure to discover practices in the banks. Once developments in individual banks became clearer and more information was available to the board, I concluded that radical changes were essential to the system of financial regulation. I wrote to the Central Bank and Financial Regulator and to the Department of Finance, and I quote, “It has been my opinion for some time that radical changes are needed to the system of financial regulation in Ireland” and I went on to say that “I believe a fundamentally changed basis for regulation of financial institutions is required”. As you know from the letter I have submitted in evidence, I suggested major changes at the time, including: increases in the minimum requirements for capital; new controls on lending practices; changes in the incentive structures; greater levels of inspection of financial institutions; new requirements for approval processes for directors and senior management; greater levels of public disclosure and transparency; changes in the relationship between external auditors and the Central Bank; and measures to facilitate and protect internal whistleblowers.

Irish macroeconomic and fiscal policy also played a part in the period post-2000 and there was an over dependence on stamp duty and VAT from property and there was too rapid growth in public expenditure. This was based on a belief that economic growth would continue, together with a consensus on the desirability for increased public expenditure. Concerns on macroeconomic policy were a recurring theme for myself and for other economists in Ireland years prior to the crisis. In a publication to honour Dr. T.K. Whitaker’s 80 years, I indicated - and I’ll quote - “while the lessons of previous policy errors are well known, there are potential dangers ... particularly if public expenditure programmes are planned on an assumption of continued rapid growth.” I emphasised the difficulty of adjusting public expenditure programmes which could result in the emergence of a large deficit and an expansion of public debt if there was an economic downturn.

Interventions in the property sector also fuelled the fire of property prices. In 1997, I argued that policy should, by appropriate planning and zoning decisions, ease the shortage of land for residential housing. Restrictive zoning meant windfall gains to property speculators, increased housing costs and opened up opportunities for corruption. The escalation in property prices was further fuelled by the build-up of tax incentives. My views on this were informed by an investigation of property tax incentives which I and other economists completed for the Department of Finance in 2005. My views at that time indicated that while the incentives were supported by a range of vested interests, including investors, property developers and banks dependent on property, my report concluded:

There is absolutely no case for further government incentives. Continuing to approve new projects would contribute to oversupply and represent a clear waste of scarce public resources.

I strongly recommended the abolition of the vast range of property incentives.

On crisis management, in the period since I joined the board of the Central Bank in 2007, there were detailed plans by the Central Bank to deal with the liquidity position and a domestic standing group was established jointly with the Department of Finance to examine risks and responses. The focus was on liquidity risks and this intensified over time. On 16 September

2008, a note to directors of the Financial Regulator pointed out that term funding was effectively closed. It stated that post-Lehman's, public concern was increasing and the tone of media comment was systemic rather than institution-specific. Investors were cutting lines to Irish banks and requesting breaks in the terms of deposits. In addition to two institutions which were being very closely monitored, one of the other major institutions advised that, "If markets do not improve, they risk breaking liquidity ratios in a matter of weeks." This signalled to me the danger of a full scale run on the Irish banking sector.

While liquidity risks were monitored, there was much less understanding of solvency and this was a major mistake. This may have been due to the belief that solvency and liquidity were separate. The week of the bank guarantee, leading to the guarantee decision, resulted in Irish citizens paying a very high and unjust cost for the banking crisis. The guarantee was not thought up on the night of 29 September but arose from extensive analysis by the Department of Finance, Central Bank and regulator, with the teams of external advisers. I first heard of the guarantee as the main option being considered in an emergency joint Central Bank-IFSRA board meeting which was called on 25 September but this option must have been developed earlier. As is evident from the official board minutes which I have supplied you with, the Governor and the Central Bank and the Department of Finance indicated that a guarantee of the liabilities of the six financial institutions was being considered. There was no suggestion at that time of any option to guarantee some banks but to nationalise others. The Central Bank board was never asked for a view on that revised option. The minutes of the Central Bank board meeting on 25 September show: "The Governor and the Chairman of the Authority briefed the meeting on the ongoing discussions with the banks and the Department of Finance regarding the liquidity position of the Irish banks and policy options to be considered if the position continued to deteriorate". It indicated that the Minister for Finance ... the then Minister for Finance had convened a meeting on Wednesday, 24 September, attended by the Central Bank, the Financial Regulator, the NTMA and the Department of Finance and, I assume, by their advisers. The Government had also met with the Minister ... the Governor of the Central Bank had also met with the Minister for Finance and the Taoiseach. The outcome of this meetings ... of these meetings was that the Government wanted policy options for the future of the financial sector to be developed and refined, as a matter of urgency, over the weekend for consideration by the Cabinet at the start of the following week. Following a detailed discussion on the liquidity pressure on all the banks in what was referred to as ... unprecedented international credit crunch, it was suggested that if the liquidity situation did not improve, the issue for the authorities would be how to address the whole financial system.

The minutes highlight what was seen as the key policy option. The minutes explicitly noted that a key policy option for the weekend was whether or not the Government should issue a formal guarantee for the liabilities of the six domestically-owned credit institutions. If a decision was to be made in this regard, the Government would require the formal advice of the Central Bank and the Financial Regulator on the necessity of such a measure and its impact. On hearing this proposal, I raised the following questions at the board. Would it be illegal under state aid rules? I suggested I expected it would be challenged. How could one minimise any exposure to the State? Would financial markets and the public view this as a credible guarantee? Had all alternative options been fully exhausted? And was there any hope of ECB-wide action before consideration was given to such a radical decision? I knew the Government ... the Governor of the bank had been very actively exploring ECB action for some time. And how would any guarantee interact with the necessary restructuring action on individual institutions in order to ensure viability? I clearly remember the representative from the Department of Finance and the Governor and some other directors also expressed strong views on that latter issue.

## NEXUS PHASE

I made suggestions to attempt to protect the taxpayer and reduce the risk to the State if such a policy was subsequently decided - firstly, by ensuring any guarantee was for as short a time period as necessary and I argued against any long-term guarantee. I indicated if the State felt obliged to give a guarantee, we should get out of these obligations as quickly as possible. I suggested that in the event of any guarantee, the banks should be forced to pay in full for this and the payment levels should reflect the value to the banks and the risk to the State. Some of these points which I and the other directors made were reflected in the formal, signed-off, agreed minutes of the meeting, and I quote:

In discussing the option of a Government Guarantee, the meeting noted that the market would have to be convinced of the credibility of the Guarantee. There was also a likelihood of a legal challenge on competition grounds if it was confined to the domestic credit institutions. The meeting agreed that the issue of an explicit Government Guarantee supported by a willingness to supply additional funding, if necessary, warranted detailed consideration. In this context, however, it would be necessary to identify a viable long-term strategy for the industry and [to] pursue this objective vigorously.

I had the distinct impression at the meeting that a guarantee of all banks was the favoured option and probably the only option in serious consideration which was explained to the board. I felt strongly at that stage that all available options should be examined, rather than simply the guarantee option, and I decided that evening to write to the Department of Finance, the regulator and the Governor of the Central Bank. As is evident from my correspondence of 25 September 2008, which I have provided to the committee, I outlined my view on the principles which should be followed: (i) State exposure to be minimised where possible; (ii) the knock-on impact of any decision should be taken into account and the minimisation of contagion; the cost of any assistance to be paid for fully by the sector, even if this means over time; and wider economic implications should be factored in. The best option was, in my view, a European-wide, EC-wide ... ECB-wide action. My opinion was there was a reluctance by the ECB to recognise the scale of the problem or to take necessary responsibility for their role, but I felt pursuing that action was desirable.

On the option of a guarantee of all six financial institutions, as proposed by the Department of Finance and the Central Bank, I was ... felt there was a need to consider different formulations if this was the chosen option. I also raised explicitly my concern over whether it would postpone necessary restructuring of Irish banks. I had concerns over whether a guarantee would be effective in preventing a bank run and what would be the market reaction. This was still a major concern to me in the days and weeks after the guarantee was announced. I also suggested the payment terms could be structured in a way which would neutralise the competitive impacts, i.e. some banks should pay proportionally more. My suggestion implied much higher costs for institutions such as Irish Nationwide and Anglo. I highlighted the need to take action to reduce Exchequer exposure and to restructure the sector. In my written advice on 25 September 2008 to the Governor of the Central Bank and to the Department of Finance, I outlined three other issues which I felt needed to be addressed as well as the immediate issue of liquidity, namely, a response to individual banks with liquidity issues, actions to reduce risk and potential exposure and plans to restructure the sector. The options for action in relation to individual banks which I proposed on 25 September 2008 included management changes, restrictions on loan ... on loans and a restructuring plan, including managing-down of loans.

Over the next few days, it was very clear the crisis was getting much worse and I felt a bank run was now a real possibility. There was a sense of incredible panic in world financial markets

and policy makers were in uncharted waters. I had come to the view that Ireland could face the total collapse of the banking system and the ECB was taking the attitude that we were on our own. By the time we had reached 29 September, I knew from the previous board meeting of the Thursday - of the 25th - that the Government ... that the Governor had indicated he'd previously been against the guarantee but then ... by then felt things had changed. The decision of the US Congress to reject the bailout plan ... their bailout plan - which was an extraordinary decision - meant there was now ... while there was up to then a chance that liquidity pressures would ease, things had now fundamentally changed. My view is that given this development, the guarantee was the sensible option, but of the terrible options available. However, I always understood that a response to the liquidity crisis would at best only buy time to address the underlying problems and to deal with the issues in individual banks. As soon as the guarantee was introduced, my focus was on how to minimise the exposure to the taxpayer and I wrote, on 20 October 2008, to the Governor of the Central Bank and to the Department of Finance stressing that "the day we give a time limited guarantee is the day we need to plan for exiting".

In conclusion, I would like to very briefly suggest a number of issues for possible consideration by the committee that may help to avoid another crisis, namely: supply issues in the housing market, unless addressed, could result in the re-emergence of rapidly increasing property prices and rental prices and even greater levels of homelessness; Governments might usefully consider using any unexpected windfall gains in Exchequer return to repay national debt, rather than fund tax reductions or increased expenditures; the Central Bank should base its policy in regulation on an assumption that any regulated institution could fail and, if it is of systematic importance, will be bailed out, and regulation should reflect that; there is ... a renewal in bank governance and personnel should be a requirement; changes in the nature of auditing of banks are required; and banks need to incentivise long-term gains, rather than spurious short-termism. Thank you, Chairman and members of the inquiry.

**Chairman:** Thank you very much, Mr. Gray, for your opening statement, and to get questions under way, I'll invite Deputy John Paul Phelan. Deputy, you have 15 minutes.

**Deputy John Paul Phelan:** Thank you, Chairman. Good afternoon, Mr. Gray ... and I'd ask you to be as brief as you can in your answers - I've a lot of questions to cover. Firstly, I put it to you that you are arguably, in terms of this inquiry at least, the most important economic adviser to Government who is largely unknown by the general public. And according to the testimony of Mr. Cowen and, indeed, some others, you were the last person outside of Government Buildings on that night to speak with him on the night of the guarantee. Firstly, I just wanted to ask you are you ... were you expecting a call on the evening in question and were you aware of the significance of the advices you were giving ... given?

**Mr. Alan Gray:** So I wasn't expecting a call in the sense there was no pre-arrangement to have a call but I wasn't in any way surprised. I have given independent economic advice to governments for about 30 years and it's known, I think by most governments, that because of the international nature of my work that I might have perspectives that other people don't have. That is not to say, Deputy, those views are right but they are often somewhat different from other views and they are always independent and are never influenced by vested interests. And governments, I ... in my experience find it very hard to find independent economists who can give independent advice and are willing to do so.

**Deputy John Paul Phelan:** Okay, I just ... I'm not trying to cut you short but I want to get through this as much as I can.



**Mr. Alan Gray:** I understand, Deputy, yes.

**Deputy John Paul Phelan:** In your opening statement ... I want to rewind to before the night of the guarantee, in your opening statement in the notes in references section, you remark that you “have not fallen into the foolish and arrogant trap of suggesting that I have never made mistakes”. Mr. Gray, I just wanted to ask you do you believe ... and you referenced the meeting yourself, that it was a mistake for you to meet with the former chairman of Anglo Irish Bank and Mr. Drury and Mr. McGann and the former Taoiseach in and around Druids Glen in July of 2008?

**Mr. Alan Gray:** I certainly believe, from where we are now and what I know now, that it was a mistake and ... but I have been so concerned about the issues of unemployment in the Irish economy-----

**Deputy John Paul Phelan:** Okay, but I-----

**Mr. Alan Gray:** No, but just Deputy, can you just let me finish this ... that I have never not accepted any invitation by any Government Minister or any Taoiseach when I have been invited to talk on this issue.

**Deputy John Paul Phelan:** That’s ... and I’ll turn to the unemployment question a little bit later. First of all, who organised the meeting, in your recollection?

**Mr. Alan Gray:** The logistic organisation of the meeting was undertaken by Mr. Fintan Drury who, I understand, was a friend of the Taoiseach’s but the Taoiseach had asked me in advance of the meeting would I be willing to have a session to give my perspectives and views.

**Deputy John Paul Phelan:** Was Mr. Drury somebody that you would’ve been familiar with? Did you have regular contact or irregular contact with him?

**Mr. Alan Gray:** I knew Mr. Drury and I had irregular contact with him. I did not know him prior to the ... the then Taoiseach becoming Taoiseach.

**Deputy John Paul Phelan:** Both Mr. Drury and Mr. McGann last week stated that you were the one responsible for drawing up the agenda for the meeting. Is that correct?

**Mr. Alan Gray:** So I think there may be some semantics here that are, sort of, important to be clear on. Nobody asked me to prepare an agenda for the meeting. I was invited, on behalf of the Taoiseach, to attend the meeting to outline any views I had on unemployment and on the ... what was happening in the economy - which is something that many governments have done at different periods - and I put in a lot of effort in advance of the meeting, including talking to some international economists about their perspectives and ideas, and I turned up at the meeting with my detailed notes. So-----

**Deputy John Paul Phelan:** Was there a formal agenda?

**Mr. Alan Gray:** There was not. I did not have an agenda but it was the case, and this may be a version of semantics which might suggest that was an agenda, I turned up at the meeting and I was at ... there was a general discussion about whether people had ideas and I said “Taoiseach, I have detailed ideas in a number of areas and I have copies of my notes and would it be appropriate to share those?” And so it did actually become the agenda for the discussion but it wasn’t a ... I didn’t see it as an agenda, I saw it as an outline of my views on what was happening, the adequacy or inadequacy of the Government’s response to that and what should be done.

**Deputy John Paul Phelan:** I want to put a quotation to you from Mr. Drury's evidence to the inquiry in response to a question from Senator O'Keeffe concerning whether unemployment was on the agenda or had been discussed. He said, "The rise in unemployment was something that, you know, we would all have been conscious of, nobody needed to raise it." Now, that is a direct contradiction of your witness statement where you refer to the Druids Glen meeting, on page 2 of your statement, as the "dinner on unemployment", and you've referenced that in your comments. I just, again, ask you to square that particular dichotomy, if you can.

**Mr. Alan Gray:** Sure, Deputy. Well, I don't really see it as my role to try and square any dichotomies with other people's evidence but in terms of-----

**Chairman:** You need to clarify it to the best of your ability, Mr. Gray.

**Mr. Alan Gray:** Thank you, Chairman. But what I can be very certain of is I was invited to talk about unemployment and what was happening in the Irish economy and that is what I talked about and the detailed evidence notes, which were prepared at the time, and which I circulated ... or any reading of that shows that was the subject matter.

**Deputy John Paul Phelan:** Okay, that's fair enough. So your view is that, contrary to what Mr. Drury said, that unemployment was discussed at this particular-----

**Mr. Alan Gray:** It certainly was but I don't wish to get into-----

**Deputy John Paul Phelan:** Was banking discussed?

**Mr. Alan Gray:** It was not discussed at any time.

**Deputy John Paul Phelan:** Banking in general?

**Mr. Alan Gray:** In general or in specific.

**Deputy John Paul Phelan:** Can I put it to you that it seems extraordinary that a group of people who all had involvement in banking - whether central banking, commercial banking - the Taoiseach, who was on the precipice of a banking crisis ... that you would gather and have a discussion on the economy and no reference would be made? I'm putting that as a layman on the street might feel.

**Mr. Alan Gray:** Well, I was asked to talk about the unemployment and the economy and to share my views on it. I was not asked to attend a meeting to discuss banking, and if I was asked, Deputy, to attend a meeting with those participants on banking, I would not have attended. I would've felt that was a matter for the executives in the Central Bank.

**Deputy John Paul Phelan:** You state on page 8 of your written statement, and I want to quote you directly, that you raised at board meetings the accuracy of information "from [...] banks [and] elsewhere on the position of major borrowers dependent on property". I want you to outline, if you can - because I haven't been able to find them - any board meetings where you brought that subject up, the dates where they happened, and if you have maybe some of the ... some of those details that you can present to the inquiry.

**Mr. Alan Gray:** Of course, because it was something that was of particular concern to me, having previously - in 2005 - undertaken the investigation of what was happening in the property sector and the way the tax incentives were fuelling property prices. I was also very aware, as an economist, of the scale of growth in commercial lending that had occurred over the period

from 2000 to 2007 and I don't have ... I didn't have time, Deputy, before this attendance to look at every reference but I do have some references that I would like to bring to your attention. At the regulator board meeting in, I think, mid-2007 - and you have, I understand, a copy of the board meetings - I did indicate that I felt it was necessary to examine in more detail the top property exposure in the banks. I suggested that there would be merits in examining the holding company accounts of the banks and ... sorry, the holding company accounts of the property developers or major borrowers, and to review whether information provided by the borrowers to different banks varied. Were they telling the same story to each of the banks? And what was the credit assessment of those property developers by individual banks and was there any difference? Because it was known to people on the Central Bank and the regulator board that they shared the same clients.

I'd also point out that in December 2007, the banking supervisory division, following on from that point I made, conducted a series of inspection of the banks to look at the commercial property lending. And in January 2008, the IFSRA board were informed of a number of issues that were raised. I'd also like to encourage you to look at the board minutes for the regulator meeting in May 2008 when I again raised this at the IFSRA board and requested more investigation of the risk exposure of the banks to major property developers.

Just finally, and I won't ... I know you've lots of questions and I'm happy to answer them all. In June 2008, I asked of what progress had been made on this and I was informed at the board of the regulator that arrangements were being made to interview the heads of lending in the main banks in order to examine in more detail the principal exposure to property developers. And they were notes I had kept at the time but if I had time to forensically go through all of the-----

**Deputy John Paul Phelan:** That's fair enough.

**Mr. Alan Gray:** -----IFSRA board meetings, I think you will see the references to those.

**Deputy John Paul Phelan:** Was Anglo one of the banks that you were concerned about?

**Mr. Alan Gray:** I was concerned on all of the banks.

**Deputy John Paul Phelan:** Okay. Did you, when you were invited to attend the meeting in Druids Glen - this is the last question I'm going to ask about this particular matter-----

**Mr. Alan Gray:** No problem.

**Deputy John Paul Phelan:** -----not feel it appropriate to maybe raise your concerns ... that you were meeting with people, all, bar the Taoiseach, who were directly related to Anglo Irish Bank, that perhaps those concerns should be raised with the Taoiseach in advance and even potentially with them in their attendance at the meeting?

**Mr. Alan Gray:** I certainly would not have considered my role, as one of nine non-executive members on the board, to be meeting an individual - representatives from an individual banks - and raising issues. I felt the appropriate channel to do that was at the board meeting and I have given you a number of references where I had done that. And I would also point out that, when invited to that meeting, I knew Fintan Drury was a friend of the Taoiseach and a communications adviser and I saw him in that context. I knew Mr. FitzPatrick was, indeed, chairman of Anglo Irish Bank and that would have been known to everyone. But I saw Mr. McGann as somebody who ran a major manufacturing company rather than an Anglo bank executive director.

**Deputy John Paul Phelan:** Can I ask you, ... now I have only a minute left and I want to cover a couple more areas. At annex 9 of your statement, you state: “No one from Anglo has ever asked me to take action on their behalf or to make representations on their behalf.” What then, Mr. Gray, were the former chairman and chief executive of Anglo coming to meet you about on the night of the guarantee?

**Mr. Alan Gray:** So, I think when they came to me on the day of the guarantee - and I think it was that day - they ... I did not invite them to come, they came. I believed they understood that the bank would not open the next day because that was the information that was available to the Financial Regulator and I think was widely known in the market. And I think they were very keen to try and find any option or any channel to, you know, have their views aired. They came and they ... Mr. Drumm had a presentation with him. I told him I had a very busy day and, you know, was there ... I'd prefer he would just tell me what was the purpose of the meeting. And he went through a number of points in his presentation. He didn't leave it with me. I told him these were issues that they should talk directly to the Central Bank on, and to the Financial Regulator, and that was what happened.

**Deputy John Paul Phelan:** Okay.

**Mr. Alan Gray:** And just because I know there has been unfounded slurs in some social media that is suggesting that I agreed to make some representation on their behalf and I can categorically state under oath here that I never did, nor would I and nor did I.

**Deputy John Paul Phelan:** You're under affirmation, I think, instead of oath. I just want to put the quote to you again. You stated-----

**Mr. Alan Gray:** In both cases, I'm telling the truth.

**Deputy John Paul Phelan:** You stated: “No one from Anglo has ever asked [and this is page 9 of your own, the annex, or annex 9, sorry]-----

**Mr. Alan Gray:** Yes.

**Deputy John Paul Phelan:** “[N]o one from Anglo has ever asked me to take action on their behalf or to make representations on their behalf.” What was the discussion about on the night in question, unless they were asking you to take some action on their behalf or to make a representation?

**Mr. Alan Gray:** But this was a very short-----

**Deputy John Paul Phelan:** Yes.

**Mr. Alan Gray:** This was a very short meeting. I didn't ask for it-----

**Deputy John Paul Phelan:** I'm not saying, by the way, that you were-----

**Chairman:** Without interruption now, Deputy.

**Deputy John Paul Phelan:** I'm not saying that you made a representation on their behalf-----

**Mr. Alan Gray:** I understand.

**Deputy John Paul Phelan:** -----but you stated in your own opening statement that you

weren't even asked.

**Mr. Alan Gray:** I wasn't.

**Deputy John Paul Phelan:** But what was the discussion about then?

**Mr. Alan Gray:** I've told you, Deputy, what happened at that meeting and what was the discussion but if you're asking me a different question of, "Why did they decide to come?", that is an area of speculation which I'm not in a position to answer.

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

**Chairman:** If I can just deal with it. If one assumes, Mr. Gray, that all behaviour is purposeful and needs driven - I sometimes question that theory but that's what psychologists would believe - what was the purpose of Anglo coming to meet with you and what was the need that they were expressing?

**Mr. Alan Gray:** So, they were coming and expressing something that was blatantly clear to me and anyone who was on the Central Bank or regulator board - that they were facing a major crisis.

**Chairman:** Okay. That's what the presenting issue was. What was the presenting ask?

**Mr. Alan Gray:** They didn't give me a presenting ask, Chairman.

**Chairman:** Okay. Right, thank you. Conclude please, Deputy Phelan.

**Deputy John Paul Phelan:** I just ... My final question then is in relation to the actual phone call which I touched on at the start. The options that were discussed ... I just want you to briefly outline them. Mr. Cowen, in his testimony to the inquiry said - and I want to quote him directly - he said:

I phoned him and asked him what he thought of a guarantee option being used. Mr. Gray emphasised that providing a guarantee would, obviously, give an advantage to those institutions to whom the guarantee would apply *vis-à-vis* competitors, since they would have the backing of the Irish Government.

In your statement to *The Irish Times* on 14 January 2011, written on your behalf by a legal firm I understand, provided to the inquiry-----

**Mr. Alan Gray:** Deputy, it was not written on my behalf by a legal firm.

**Deputy John Paul Phelan:** Okay. Sorry, it's been presented to the inquiry ... I misunderstood it if that's ... I wasn't trying to mislead myself. You state that you were asked to "obtain your views as a director of the Central Bank on the likely market reaction". The question - really, there's two parts - what were the options discussed? And which is, in your recollection, the correct recollection of events of that phone call? Did Mr. Cowen ask you what you thought of the guarantee option being used or did he ask you the much narrower question about what the likely market reaction to that option would be?

**Mr. Alan Gray:** Okay, Deputy, if I can deal with the two questions. First of all, the option that the Taoiseach asked my view on was the very same option that was raised at the Central Bank board meeting the previous Thursday, which was an option to give a guarantee to the six financial institutions. And he asked me what did I think of it and what would be the market

reaction. I don't see a difference in that-----

**Deputy John Paul Phelan:** One is a broader question. The market reaction is a-----

**Chairman:** Deputy, I will bring you back in the wrap-up.

**Deputy John Paul Phelan:** The market reaction could be encapsulated in the broader term but I mean, what I'm saying is your initial statement or that statement in *The Irish Times* specifically said, "likely market reaction". That is a very narrow thing.

**Mr. Alan Gray:** Well, I think, Deputy, to be, you know ... in terms of fair procedure, the statement went on to explain the issues that I was ... dealt with in that discussion, which, if you took a very narrow interpretation of just market reaction, then it wouldn't have raised issues that I raised, which was that the bank should be forced to pay a fee for it and that it should be time-limited because the longer you give a guarantee, the bigger risk to the State. And so, I don't see any difference. I wrote that statement, not with any legal assistance or any legal advice. And I had a significant dilemma in writing that statement because I have always operated as a very professional economist, operating with commercial confidentiality. When that issue became a matter of national public debate, I was extremely ill at the time and I wasn't quite sure how to respond. Other people didn't make any statements and I still don't know to this day did I made the right call in trying to balance professional confidentiality and in terms of having public disclosure, but I made that decision.

And it ... I have had discussions with the current Taoiseach and previous Taoiseachs and previous Ministers and I would never dream of making a public statement about them. Even this morning before I came to this inquiry, I was asked advice from very senior people in the Prime Minister's office of another eurozone country. But I don't go issuing public statements about contents of discussions I have, because it is the epitome to independent professional conduct. But I made that decision and I don't know whether it was the right one or not.

**Chairman:** I am just going to bring in Senator Barrett. I just need to clarify this so we don't ... we avoid repetition and kind of visiting the same area over and over this afternoon, Mr. Gray. Just clarify this. On the day of the guarantee, two officials from Anglo called to see you, yes?

**Mr. Alan Gray:** That is correct.

**Chairman:** The two officials were?

**Mr. Alan Gray:** Mr. Drumm and Mr. FitzPatrick.

**Chairman:** Okay, so the chief executive officer and the chairperson of Anglo.

**Mr. Alan Gray:** Exactly.

**Chairman:** They called to see you and they tell you about their problems. Yes?

**Mr. Alan Gray:** Yes.

**Chairman:** And they did not ask for any action and they did not ask for any advice. They just called to tell you their problems.

**Mr. Alan Gray:** They called to say that they were facing a crisis, something that I was well aware of.

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**Chairman:** I know that ... that they told you their problems.

**Mr. Alan Gray:** I understand.

**Chairman:** I just want ... but at no time ... there was no request for any action and there was no request for any advice.

**Mr. Alan Gray:** There wasn't.

**Chairman:** Okay. So, other than them calling to tell you about their problems, was there any other purpose or content or any related matter that you are not telling us now?

**Mr. Alan Gray:** There certainly wasn't to my knowledge, Chairman. What were their motivation in doing it would be a matter of speculation.

**Chairman:** I am not speculating; I am just dealing with facts.

**Mr. Alan Gray:** Well, I don't have any other facts.

**Chairman:** Okay. Senator Barrett.

**Senator Sean D. Barrett:** Thank you, Chairman, and welcome to Mr. Gray. You're saying that you don't take a fee from the Central Bank and you provide your economic advice free. I mean, how does that work in the sense that ... does your company lose every time you're spending a day or two at the Central Bank? Is that the consequence, yes?

**Mr. Alan Gray:** It would, Senator, that would be the consequence. And I think, Senator, you, probably more than most, would know that there has been a long tradition, since the 1950s or '60s, in economists being willing to give their time and views on important issues free to governments, where they're just asked for their opinions.

**Senator Sean D. Barrett:** Okay, thanks. Now, on the Central Bank, you joined in January 2007 and the crisis happened in September 2008. So, you had about 20 months. Could you describe your experience? Did you see it building up or did it all happen at the very end in a crisis situation, or could you see it building over that 20-month period?

**Mr. Alan Gray:** Senator, so I certainly did not know that the particular crisis that we've all had to been faced with would occur and I don't believe anyone else anticipated that scale of crisis, and I have outlined why I think that crisis happened, by a combination of both Irish and international mistakes. But I was very aware of the risks in the banking sector and the risks in the Irish economy and I raised those risks on many occasions. In terms of Deputy Phelan's questions, I outlined some of the risks I raised and looked for action to get more information on the commercial property lending side and I also raised issues in relation to the stress testing of banks and a whole range of other issues, some of which are in the detailed evidence I've supplied.

**Senator Sean D. Barrett:** Were you the only contrarian on the board expressing those kinds of sentiments?

**Mr. Alan Gray:** It is a very interesting question, Senator, because I have seen some media reports which seem to suggest that there were no other ... well, there were no challenges being made. And that is not aligned with my experience of the board meetings in the period since I joined in 2007.

**Senator Sean D. Barrett:** And what did people challenge the conventional wisdom about?

**Mr. Alan Gray:** So, I think it was very much a question of looking for the executives to examine in more detail the key risks that were in the banking sector. And they related to examining in terms of what was likely to happen in the commercial, buy-to-let market, in the property sector. It was very much in terms of looking at and encouraging an investigation of what would happen during a property crash, because all booms end in either a slow down of property prices or, in a significant number, in terms of a property crash. So, I think there was a very wide range of risks identified and research done, but they came to the wrong judgment on what actually happened.

**Senator Sean D. Barrett:** Why did they come to the wrong judgment?

**Mr. Alan Gray:** I think there was a combination of factors. I think undue comfort was taken from the fact that the previous decline in Irish property prices, which happened a number of previous ... a number of years previous, had not caused any difficulties for the banking sector. I think the second reason was they felt from their detailed international research, which they presented in terms of the draft stability reports, that the probability was that if there was a property crash, it would be a property crash that would decline over time rather than the scale of immediate crash that happened following the Lehman Brothers. And also Senator, I think because they believed that the magnitude of that property price decline would be less than actually transpired.

**Senator Sean D. Barrett:** Was this a discussion or did they actually give you data on sectoral concentration, on loan-to-value, on loan-to-deposits, on the amount of borrowing from the Central Bank itself, from the ECB? Did you get numbers to back up your fears?

**Mr. Alan Gray:** Yes, Senator. They weren't my figures, but in terms of the level of evidence given to the board, I felt that there was a good granularity on those numbers and estimates and, if we've time, I would like to talk a little bit about the stress testing that was undertaken, the research that was done for it and why it actually failed to anticipate the scale of crisis which emerged.

**Senator Sean D. Barrett:** So, an impression that the Central Bank and the regulator weren't aware of what was going to happen in September 2008, you would say that's wrong, that they were, they had the data, they were presenting it at the board and the board members were analysing it.

**Mr. Alan Gray:** They certainly - and I wouldn't like to give any misunderstanding of this - they had no idea of the scale of the crisis which subsequently emerged, but they did examine a wide ... they certainly knew that the property exposure of individual institutions ... they didn't have sufficient information on what exactly was the position with individual property borrowers, and that was something that I raised at a number of board meetings. But they did know about the exposures and they did know about the necessity to identify the key risks.

**Senator Sean D. Barrett:** Did the directors discuss ... some, two of the biggest banks were lending about 7% of their book to agriculture and industry combined, and about 80% to property. Did anybody raise fears around the bank, the Central Bank board table, about that kind of a banking system?

**Mr. Alan Gray:** They did, Senator. I think from the time I joined, really, a few things were happening. First of all, that incredible mountain of build-up of lending to the property sector



really was just hitting its peak. And I cannot comment on any analysis that happened prior to 2007 when the real risks were built into the sector, but there was a detailed discussion on the risks which were very evident then, Senator, and that was a part of the board discussions.

**Senator Sean D. Barrett:** Were there concerns about houses moving from two and a half times average income to up to 12 times average income, or *The Economist* international data on house prices showing that Ireland was way ahead of pretty well anywhere else that *The Economist* was collecting the data?

**Mr. Alan Gray:** There was. I think the full awareness of that scale of risk was probably ... the nature of that risk was probably not fully anticipated because there was evidence that the property prices were declining and they had a belief that things would get better.

**Senator Sean D. Barrett:** You mention on page 6 of your presentation your concerns about the design faults in the euro. Did the Central Bank have any fall-back position to deal with massive flows of capital into the Irish banking system?

**Mr. Alan Gray:** I don't recall any discussion of that issue at the Central Bank.

**Senator Sean D. Barrett:** Did you bring the work of Jeffrey Sachs, your author, to the board to warn them about that?

**Mr. Alan Gray:** I did not. I felt that the design flaws in the euro were something that would have needed to be addressed previously but I was attempting to focus on what was really the outcome of those risks.

**Senator Sean D. Barrett:** Did the bank have any contact with the ECB about the dangers to our economy from the design faults in the euro?

**Mr. Alan Gray:** It was certainly the case that we were informed by the Governor that there was intensive interaction with the ECB about the liquidity position in the Irish banks, which was related to that factor. And indeed that was part of the reason for the domestic standing group being established as a tripartite group between the Department of Finance, the regulator and the Central Bank.

**Senator Sean D. Barrett:** Yet in the documents you sent us there seems - I'll put the proposition to you, that there is a remarkable lack of urgency, you know, as this problem built up. You know, measures to have thoughts about further measures, sort of, kind of thing. The imminence of the crisis doesn't seem to have led to any policy response.

**Mr. Alan Gray:** I think, Senator, by the time it was clear that the crisis was imminent the policy instruments were really very limited.

**Senator Sean D. Barrett:** You were a strong opponent of the tax incentives for property and your study, in fact, quantified some of the measures which hadn't elsewhere been quantified. Could you tell us why you were so strongly against tax-based property investments?

**Mr. Alan Gray:** I think that they are one of the biggest Irish mistakes that happened within our own control. I think that there were a number of issues in relation to property-based tax incentives. One was that they meant that funding was being directed into, effectively, a unproductive part of the economy rather than supporting the internationally-traded sectors and this was of concern to me, not just as the crisis emerged but much earlier. I think it was in the early to mid-1990s, in a book that I wrote that, Senator, you may be aware of because one of

your colleagues, Professor McAleese, was one of the contributors. But in my chapter on that book I pointed out, back then, back in I'm not sure if it was 1992 or 1995, that no new taxation measures should be introduced for any activity in the non-traded sectors of the economy. And I pointed out that views ... viewed in isolation many of the tax incentives for certain property and other investment might appear defensible in order to achieve a specific local or other objective, but viewed against the background of the need to encourage tradeable activities, such activities cannot in general be justified. And I purposely went on to say that there should be no further extension to the timescale for them, and I pointed out that whenever a date is set for the cessation of investment-related property tax incentives, strong vested interest groups will emerge to seek an extension of such deadlines. The case will be argued that investments were in the planning stage and it would be inequitable to have the cut-off date. I said, alternatively it could be argued the level invested had not taken place and the timescale should be extended, but I said-----

**Senator Sean D. Barrett:** Okay, thank you. If I may-----

**Chairman:** In general, just a point, I need you to return to me with the line of questioning and what's outstanding maybe in your wrap-up, Senator, but I need you to focus up on concluding your line of questioning there. We've only got a couple of minutes left.

**Senator Sean D. Barrett:** Yes. Your memo to Kevin Cardiff on 25 September 2008 outlining the five options to deal with specific issues faced by the individual domestic banks ... did you get a response to that?

**Mr. Alan Gray:** I didn't get any formal response. I ... my memory is I got a phone call to thank me for my-----

**Senator Sean D. Barrett:** Yes.

**Mr. Alan Gray:** -----letter, but that was it.

**Senator Sean D. Barrett:** And that was an altruistic gesture. Mr. Cardiff didn't ask you for it or commission you to do it.

**Mr. Alan Gray:** No, this was the only - I gave that as a member of the Central Bank board, who earlier that day was told that the Government were looking for urgent actions to deal with the escalating liquidity crisis and that the Government would be seeking the views of the Central Bank board. I outlined my views at the board meeting but I wanted to make sure that there was full understanding, because in a board of nine people you can only have - a bit like this committee - you know, conversations can get a bit shortened even though it might be worthwhile to continue. And I went home that evening. I dropped everything I was planning to do and I wrote that detailed memo. Nobody had requested it, other than they had pointed out that this was likely to be the option and I felt it was important to encourage consideration of other options.

**Senator Sean D. Barrett:** Finally, you sent in about 4,500 words, estimated, on the employment and unemployment problem. Did you get a response to that from the people who attended that particular meeting?

**Mr. Alan Gray:** No.

**Senator Sean D. Barrett:** Okay.

**Chairman:** I just want to deal with-----

NEXUS PHASE

**Senator Sean D. Barrett:** It happens to economists. I'm very sorry-----

**Chairman:** -----the disagreement that Senator Barrett was touching upon. Just to clarify, the advice requested, was the advice requested by the Department of Finance or by Mr. Cardiff?

**Mr. Alan Gray:** So the advice wasn't requested either by the Department of Finance or Mr. Cardiff. I attended that day a board meeting, which I have given you the minutes of, which said the Government are considering the option of providing a guarantee on the six financial-----

**Chairman:** Who informed you of that?

**Mr. Alan Gray:** It was informed by ... that was the discussion at the formal Central Bank board-----

**Chairman:** Okay.

**Mr. Alan Gray:** -----meeting where the Secretary General of the Department of Finance, the Governor and the chairman of the regulator were briefing the board - the non-executive members-----

**Chairman:** Right.

**Mr. Alan Gray:** -----on developments that had happened the previous day in terms of the-----

**Chairman:** Okay, but you then fed in a document afterwards-----

**Mr. Alan Gray:** Exactly.

**Chairman:** Were they expecting it or did you just come and write, and say, "Look, I'm going to bang it into the guys there tomorrow", or what?

**Mr. Alan Gray:** I didn't see it, Chairman, in terms of banging in something tomorrow. I felt this was going-----

**Chairman:** Were they expecting it?

**Mr. Alan Gray:** They were not expecting it.

**Chairman:** Okay, that's fine, so you ... this is something you done under your own volition?

**Mr. Alan Gray:** I done on my own volition. That's what independent economists do, they give their independent views. I wasn't commissioned to do it and no one was paying me to do it but I felt it was important to outline my views on those issues.

**Chairman:** So, in this regard, this is a voluntary action, but, at any time, was there a consultancy agreement between Indecon and the Department of Finance?

**Mr. Alan Gray:** There was no consultancy agreement between Indecon and the Department of Finance on any issues concerning financial services or anything related to this. As I pointed out, on occasion we would win assignments on a competitive basis like our property-based tax incentive review but this was nothing to do with ... nobody was paying me to do this but as a director of the Central Bank I felt a responsibility to give my views.

**Chairman:** Well, I just want to stay with this particular. Was there any reason why liquida-

tion was not considered on the most stressed banks prior to any guarantee being issued to ... for the other viable banks?

**Mr. Alan Gray:** Chairman, that was not one of the options. I mean the options that were presented at the Central Bank board meeting ... there was only two options given. One was to provide a full guarantee on all the banks and, secondly, to give a bond to all the banks which would have effectively the same thing.

**Chairman:** I know on that day you are moving very much to a pinch point where a decision has to be made but at any time in the lead up to that - I am not even talking about this afternoon, that afternoon - was there any reason why liquidation was not considered on the most stressed banks?

**Mr. Alan Gray:** I think it was a belief and I think probably a correct belief that to let a bank of systemic importance fail in terms of liquidating it would have been a really extraordinary act in the context of a banking crisis.

**Chairman:** And this brings me on to the next issue because there is a question there as to whether Anglo is systemic or not and so forth and that it was a point of debate. So was liquidation rather than the nationalisation mentioned in your memo to Kevin Cardiff dated 25 September 2008 not a more favourable option for the Exchequer?

**Mr. Alan Gray:** It would have been much more favourable for the Exchequer but much more damaging for the economy. I know of no expert economist in this area that thinks in the middle of coming into a bank run that a sensible option would be to liquidate a bank and we do have one example of that, Chairman, namely, in Lehman Brothers and we know the impact of it.

**Chairman:** To say I am grateful to allow me the discipline of getting through some of this stuff here with you, Mr. Gray. Just finally on that, was a political guarantee rather than a full blanket guarantee considered as an option by you or the board members and, if not, why not?

**Mr. Alan Gray:** It wasn't considered by the board members but it certainly was considered by myself. And on the second page of the detailed document that I put in, I put a potential option would be that there would be a Government or ministerial statement indicating a State guarantee would be provided if required or an intention to provide such a guarantee but with no immediate commitment or legislation. And I gave my assessment of that would be that that would be in danger of being seen as too weak and it would probably be better not to have any such statement. And that if in the scale of the crisis we were facing, any systematic wide initiatives must be seen as sufficient otherwise it would fail. And I think the idea that in the scale of the crisis that people were facing that a general political statement from the Government would've prevented a bank run, I think would not be a credible option.

**Chairman:** So it needed a full paper guarantee not just a political statement.

**Mr. Alan Gray:** Exactly.

**Chairman:** Just for the moment, we can deal with the specific regulatory matters as I, kind of, go deeper into the question but just for now, I just want to deal with the processory aspects of it. In your witness statement you advise, "I felt so strongly on this that I wrote to the Central Bank Governor-Financial Regulator and to the Department of Finance and suggested radical reform of financial regulation." Now I just don't want to get the details for the moment but would you consider it normal practice for a board director to write to the Central Bank Governor and

the Financial Regulator expressing concerns? Would that be normal practice in the main?

**Mr. Alan Gray:** I think in terms of the strength of my views and in terms of my understanding of the scale of changes needed, it was an appropriate action. It wouldn't be a normal action, Chairman, in a normal situation if there was not major problems and the reason that I sent it to the Department of Finance and to the Central Bank and not just raised it at Financial Regulator board meetings was it would require Government action and legislative changes as well as simply a matter within the remit of the board.

**Chairman:** A more holistic solution, I suppose, for want of a better word.

**Mr. Alan Gray:** Exactly.

**Chairman:** Were you aware of any other directors looking or doing otherwise, that would have been, that would have taken kind of similar actions?

**Mr. Alan Gray:** I am not aware but I would not necessarily be aware. I did not send those letters to all the directors. I didn't go to board meetings and say, "I've taken the time to look at what I think would be the issues in a guarantee", and urge action and things. And maybe others did but I have no knowledge of that.

**Chairman:** Can you maybe just advise the committee as to what was the reception, the reply you received, to this written note?

**Mr. Alan Gray:** So, I think on ... I think I've submitted five letters I have sent into the Secretary General, the second secretary, the chairman of the Financial Regulator and the Governor, concerning either the guarantee, the issue of capitalisation or the regulation and on all occasions I would have had a verbal acknowledgement and a, "Thank you", for them but they would not have discussed with me what responses they were proposing to take and, Chairman, nor would I have necessarily expected them to.

**Chairman:** Okay. I am just going to bring in Deputy O'Donnell in a moment but I just want to afford you to give the fullest explanation in this. When Anglo called to see you ... Mr. FitzPatrick and Mr. Drumm, where did they see you, your office, your house?

**Mr. Alan Gray:** As I indicated in my published statement, to my office.

**Chairman:** To your office, okay. Who advised them to go to you? Did they say a person said we need to go and see you?

**Mr. Alan Gray:** I have no idea.

**Chairman:** Okay. How did they find you? Did they have your-----

**Mr. Alan Gray:** I have no idea. I mean, it is a matter of public record, the research practice that I lead and-----

**Chairman:** Were you expecting them?

**Mr. Alan Gray:** I was not expecting-----

**Chairman:** They didn't phone ahead?

**Mr. Alan Gray:** They didn't.

**Chairman:** Okay. And they didn't ring or have your number? They just literally showed up on the door. What time of the day was it?

**Mr. Alan Gray:** It was in the afternoon but I couldn't remember-----

**Chairman:** After lunch?

**Mr. Alan Gray:** -----the precise time. It was after lunch, yes.

**Chairman:** And later that evening you had a discussion with Mr. Cowen -----

**Mr. Alan Gray:** I did.

**Chairman:** -----about ... he stepped out of the room to ring you and he expressed to this committee the importance that he would take and weigh upon your advice. Did the engagement with Anglo that afternoon inform any of the discussion with Mr. Cowen later that evening?

**Mr. Alan Gray:** It did not.

**Chairman:** Okay. Deputy Kieran O'Donnell.

**Deputy Kieran O'Donnell:** Thanks, Chairman. Welcome, Mr. Gray. Mr. Gray, can I go to Vol. 1, page 65 to 66, its core document, it's the letter of 20 October that you wrote to Mr. Kevin Cardiff? You might just summarise what were the main points you wanted to raise. It is about an exit strategy from the bank guarantee, the reasons why you wrote the letter so early in the guarantee period. How was the letter received? What action was taken on foot of it? You sent a similar letter to the financial stability committee in the Central Bank and what action was taken on foot of this?

**Mr. Alan Gray:** So, is that in the-----?

**Deputy Kieran O'Donnell:** It's in Vol. 1, page 65.

**Chairman:** The transcript in front of you might be more helpful for you.

**Mr. Alan Gray:** Thank you very much, Deputy, and I'm very aware of the letter, as you can imagine, but I just wanted to have it in front of me in terms of answering you. So, in terms of when ... why did I write that letter and what was the nature of it and what was the content, I was aware at that stage that there was a very widespread perception both in Ireland and internationally that the guarantee had worked in terms of stemming the outflow of funds to the banks. But I was very much aware - and these were the same points I was making in my letter of the 25th, before that decision was made - I was very much aware that there was significant risks for the exposure for the Exchequer.

**Deputy Kieran O'Donnell:** And in that context, Mr. Gray, would you have advised Mr. Cowen, the then Taoiseach, in your telephone conversation that you believed the guarantee should only be for a year?

**Mr. Alan Gray:** I did not give a precise timeframe but I said it should be as short as possible, and I had in mind the fact that it was probably about exactly a year previously when Northern Rock went bust that the UK Government - and, I think, very wisely - did not say, "We'll give a guarantee for five years." They said, "This is a temporary guarantee to deal with an exceptional period of financial turbulence."

**Deputy Kieran O'Donnell:** In the limited time I have, can you just summarise the key points you were making and what action was taken on foot of the letter of 20 October?

**Mr. Alan Gray:** Thank you, Deputy. So I said ... the key points I was making is that I knew that there were ... everyone was very involved in implementing the guarantee but I felt that we ... policy makers needed to focus on the effective risk management for the guarantee and the exit strategy. And I made that statement that the day we give a limited guarantee is the day we need to-----

**Deputy Kieran O'Donnell:** Was there action taken on foot of your letter, Mr. Gray?

**Mr. Alan Gray:** So, if I can just very briefly come-----

**Deputy Kieran O'Donnell:** I have very limited time now, Mr. Gray.

**Mr. Alan Gray:** I understand but I'm trying to, in the most effective way possible, give an answer to this. That was only highlighting a risk but in terms of what action was taken, I outlined what I felt was the action that was needed. And I said that that risk management strategy must have, really, changes in the regulatory process, including effective monitoring, assessment, quantification and control of risk. And I outlined a number of strategies that could be done to achieve that, actions to increase the capitalisation of the Irish-----

**Deputy Kieran O'Donnell:** And did you get a response to the letter, Mr. Gray?

**Mr. Alan Gray:** I mentioned, Deputy, that on all of these letters, I would have got a phone call to say, "Alan, thank you for that and that will be considered."

**Deputy Kieran O'Donnell:** Can I move on? You made reference in your document - annex 7 in Mr. Gray's statement - it relates to the meeting in Druids Glen, and you gave, effectively, your agenda. And I just had a quick look at the agenda, Mr. Gray. It's about 64 items in the agenda.

**Mr. Alan Gray:** Yes.

**Deputy Kieran O'Donnell:** I think about eight of them relates in some way ... could be related to creditor banking. The first two ... the notes in blue underneath the main headings, when did you write those notes?

**Mr. Alan Gray:** I wrote those - and I state this in my evidence - I wrote those as my views of what was behind my thinking. They were the views that-----

**Deputy Kieran O'Donnell:** When did you write the notes?

**Mr. Alan Gray:** So, I wrote them for the purpose of the inquiry.

**Deputy Kieran O'Donnell:** So you wrote them post-Lehman's?

**Mr. Alan Gray:** I did.

**Deputy Kieran O'Donnell:** And the first one speaks about that Ireland faces its most difficult economic challenge in over two decades and the scale of the challenge shall not be underestimated, and you speak about Lehman Brothers in that context. No. 2, you say, "Ireland has been hit by four main international developments, namely: global credit crunch"... was the No. 1 item you put in there. So, the question I suppose I want to ask, in that context, Mr. Gray: do

you think it's credible to say that banking was not discussed?

**Mr. Alan Gray:** I certainly do. I mean, I was talking there about the international economic environment, and what I had indicated is that Ireland had been hit by four main international developments - the global credit crunch, the unprecedented increase in energy prices, the decline in investor and consumer sentiments and rising European interest rates-----

**Deputy Kieran O'Donnell:** But you were in the room. Did the meeting take place at Mr. Drury's private home?

**Mr. Alan Gray:** It did.

**Deputy Kieran O'Donnell:** Okay. What time did the meeting start at in the morning?

**Mr. Alan Gray:** My recollection is it was reasonably early in the morning, but I don't have the precise time-----

**Deputy Kieran O'Donnell:** Are we saying 8 o'clock, 9 o'clock?

**Mr. Alan Gray:** No, I ... my recollection is it was about 10 o'clock-----

**Deputy Kieran O'Donnell:** About 10 o'clock.

**Mr. Alan Gray:** -----but if someone told me it was 11 o'clock or 9 o'clock, I would not recall it at this distance.

**Deputy Kieran O'Donnell:** And you were in the room ... like, were you aware of who would be attending that meeting prior?

**Mr. Alan Gray:** I was.

**Deputy Kieran O'Donnell:** You were invited by Mr. Drury?

**Mr. Alan Gray:** I was invited by the Taoiseach, who asked me would I be willing to give up a morning to outline any views I had on what was happening in the economy and unemployment and what responses could take place-----

**Deputy Kieran O'Donnell:** So you-----

**Mr. Alan Gray:** -----and to my recollection ... is Mr. Drury rang me with the logistic details.

**Deputy Kieran O'Donnell:** So you would've been aware at that stage that you had two current directors and the chair of the board of Anglo, you had one former director, Mr. Drury. Did you not think, in your role as a member of the Central Bank, at that particular moment in time, that it would be unwise to attend such a meeting?

**Mr. Alan Gray:** I didn't, Deputy.

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

**Mr. Alan Gray:** I didn't, Deputy, for a number of reasons. I was ... if I had been asked to attend a meeting on banking or Anglo Irish, I certainly would. But I was asked to attend a meeting where the chairman of Anglo Irish Bank was there and the chief executive of Smurfit Kappa - I wasn't even aware that he was a director of Anglo Irish Bank - and Mr. Fintan Drury, who was a friend and adviser to the Taoiseach on communication issues. I have been invited



by many different Ministers and Taoiseachs to attend meetings, and I don't have a say... I don't control who the other attendees are but I did not see any difficulty with this.

**Deputy Kieran O'Donnell:** And the final ... in this statement, in this annex 7, you give - on section 3, "Suggestions re Process and Indicative Timelines" - you go down through ... that, really, over the month of August, the Minister for Finance and the Government should do an action plan. Was any of this acted upon?

**Mr. Alan Gray:** I don't think there was specific action taken on that, to my knowledge.

**Deputy Kieran O'Donnell:** No action?

**Mr. Alan Gray:** I'm not saying there was no action on any of the ideas. I think if one looks at what I said were the major areas that needed action, which is under the six areas that require a response, the first one was to improve competitiveness, the second one was to look at adjustments-----

**Deputy Kieran O'Donnell:** But they were all ... I mean, I accept they were to implement the particular items you had discussed in this agenda. On reflection, Mr. Gray, why did you say earlier that it was a mistake for you to attend that meeting?

**Mr. Alan Gray:** Because I think - and I'll need maybe legal advice here, Chairman - is that there are certain issues that have arisen which I was not aware of, which would influence my views of whether I would now go to such a meeting.

**Chairman:** But at the time of the meeting ... I'm only interested in the content of the ... and the context of then. Events subsequently unfold and all the rest of it; I'm not looking for that filter or that measure to be put in it.

**Mr. Alan Gray:** I understand.

**Chairman:** Deputy O'Donnell is referring to the context of the meeting.

**Mr. Alan Gray:** I saw no mistake in going to the meeting at the time.

**Chairman:** Okay.

**Deputy Kieran O'Donnell:** Okay, thank you.

**Chairman:** Thank you very much, Deputy O'Donnell. The next questioner is Deputy Eoghan Murphy. Deputy.

**Deputy Eoghan Murphy:** Thank you, Chairman. Thank you, Mr. Gray, and you're very welcome. Mr. Gray, I'd like to focus on your time as a member of the board of the Central Bank, if I may. You resigned from the board when exactly?

**Mr. Alan Gray:** So, I've seen some media statements suggesting that I was appointed in December 2006 and that I was on the board to 2009. I'm not quite sure the source of that information. It certainly isn't information I've given the inquiry, and I don't believe it's factually correct. Or actually it says I was there till 2008 ... September 2008. I joined ... I got my first letter appointing me, having agreed to join, when I came back from my break at Christmas. I got it in January and I attended my first board meeting at the end of January 2007. I remained on the board until the new Central Bank Commission was appointed. I was on the board that oversaw the appointment of Professor Honohan as the new Governor; I was on the board of the

regulator that saw the appointment of Matthew Elderfield as the new regulator; and I was on the board that started to implement a very different form of financial regulation, very much in line, Deputy, with what I had earlier written to Finance and the Central Bank.

**Deputy Eoghan Murphy:** So you continued on past the guarantee and into ... easily into '09.

**Mr. Alan Gray:** Yes.

**Deputy Eoghan Murphy:** I just wanted to clarify that because it wasn't clear. You provided in your written statement your views on stress testing.

**Mr. Alan Gray:** Yes.

**Deputy Eoghan Murphy:** I wanted to know if you wanted to add to those because you do talk about one of the reasons why our own stress testing here in Ireland didn't identify the problems. Without repeating yourself, is there anything you want to add to what you submitted in your written documentation?

**Mr. Alan Gray:** Thank you, Deputy. I think that I did have some further thoughts on stress testing, yes. Just in preparing for this session, Deputy, I went back through more detailed notes I had and I can't quite remember whether I put this in my statement but the very first presentation on financial stability and stress testing that was made to the central board ... bank board when I was a member was at the end of March 2007, and I and a number of other directors asked for further work to be undertaken on five areas: the exposure to the decline in the price of building land; the consequences of the continuation of recent trends in credit; the effect of changes in interest rate on affordability and debt levels; analysis of the levels of provisioning and what would be the impact of a collapse in property prices. At a subsequent meeting of the Central Bank board, I and other directors asked for further work to be completed on three areas: commercial property; the buy-to-let market and the emergence of sub-priming.

**Deputy Eoghan Murphy:** Mr. Gray, can I just interrupt you for a second?

**Mr. Alan Gray:** Sure.

**Deputy Eoghan Murphy:** Because I want to ask what that implies. Does that imply that when you came onto the board you felt that the stress testing being undertaken wasn't good enough?

**Mr. Alan Gray:** It didn't and I think that would be an unfair representation to make it appear that I-----

**Deputy Eoghan Murphy:** So, those were additional factors that you wanted to be undertaken.

**Mr. Alan Gray:** Exactly. Yes. And they did do additional fact research, including an examination of the details of a range of property price collapses. I have submitted that in part of my evidence to the commission and it has been deemed as not appropriate for me to put into my evidence because of section 33AK but I am happy to talk in a more general way about that if that would be helpful.

**Deputy Eoghan Murphy:** One of my colleagues might be able to come back to that. There were a couple of other things around that I wanted to ask. The other question was in relation to

you or your company ever being employed or contracted to do additional work for any of the individual banks on their own stress testing or any measures like that.

**Mr. Alan Gray:** Never.

**Deputy Eoghan Murphy:** Okay. So you had no independent knowledge of the banking system separately from your position on the Central Bank board.

**Mr. Alan Gray:** Well, I had some knowledge of the banking system internationally from our work for the European Commission and we have done work for the financial services conduct authority in the UK and for other clients but I had no information from any Irish banks other than the information which was available to the regulator and the Central Bank.

**Deputy Eoghan Murphy:** If I could move on to the meeting of 25 September 2008-----

**Mr. Alan Gray:** Sure.

**Deputy Eoghan Murphy:** -----and a note you provided in to Kevin Cardiff. It's page 34, Vol. 1. One of the initial points you put down is the danger of a system-wide response being seen to be too weak, "Any system wide initiative ... must be seen as sufficient so ... there is not ongoing initiatives launched." Is that in effect you saying that anything that is done needs to do the job and do it in one go, if you like, because we heard something similar from Mr. Hurley when he was before the committee? So I'm wondering if when he put that view into the room on the night of the guarantee it was because of the conversation that the Central Bank would have had, but because of that view that you held in particular.

**Mr. Alan Gray:** I can't interpret why Mr. Hurley made any comments but I can certainly account for my view on that, Deputy, which was there ... in every banking crisis there is a real danger of piecemeal action which subsequently leads to more and more piecemeal action and actually causes a much greater problem.

**Deputy Eoghan Murphy:** That is the sufficiency that you were talking about.

**Mr. Alan Gray:** Yes.

**Deputy Eoghan Murphy:** A final question, if I may, because I'm close on time, is, when Mr. McDonagh was before us from the NTMA, in the inquiry, and he was talking about the night of the guarantee but also the preparations leading up to it and what he understood and the view of the NTMA and he said in page 91 of the transcript, it says, this is Mr. McDonagh: "I think it was about 1 o'clock, I think it was about 1 o'clock in the morning when Kevin came out of the room and says ... said 'The Government has made a decision to ... do a blanket guarantee', and I was flabbergasted because all the work had been about preparing for [nationalisation, excuse me,] nationalising an institution." So, can you ask how the NTMA might have had that view right up until the moment of the guarantee, whereas the view of the Central Bank from the 25th was it's going to be a guarantee?

**Mr. Alan Gray:** Well, I don't think it was actually the view of the Central Bank that it was going to be a guarantee but on the meeting of the Central Bank board on the 25th, the only option that was presented was one to give a guarantee to the six financial institutions-----

**Deputy Eoghan Murphy:** You mentioned the NTMA was in a meeting on the 24th, the day before that.

**Mr. Alan Gray:** And we were informed that the NTMA were at a meeting the previous day with the Central Bank, the regulator, the then Minister for Finance and their teams of advisers and the outcome from that meeting was the proposal that was being put for consideration to the Central Bank board, and I wasn't at those meetings that Mr. McDonagh was at on the 24th but I am outlining what we were told as Central Bank directors the next day and what the formal signed-off minutes by everyone shows was the case.

**Deputy Eoghan Murphy:** But is it possible that someone attending the meeting on the 25th being informed of what was discussed on the 24th might have misinterpreted this in some way to come to the conclusion that Mr. McDonagh had come to that-----

**Mr. Alan Gray:** It certainly is.

**Deputy Eoghan Murphy:** It is possible.

**Mr. Alan Gray:** That is certainly possible but ... and it's certainly possible that ... you know, that's certainly possible.

**Deputy Eoghan Murphy:** How is that possible if the meeting is so clearly recorded and that's your clear understanding that the guarantee was the option being discussed-----

**Mr. Alan Gray:** Yes.

**Deputy Eoghan Murphy:** -----that someone would be able to say then or come to a view from that that all the work had been about preparing for nationalising an institution? How can you take that from-----

**Mr. Alan Gray:** I'm afraid I can't answer that question.

**Deputy Eoghan Murphy:** But you think it's possible that someone could do that?

**Mr. Alan Gray:** I think it is possible, you know, because I assume that the meeting on the 24th - and I have no knowledge of this - might have considered a range of options but came to a particular view that they were looking for to express to the Central Bank the next day.

**Deputy Eoghan Murphy:** Can you think why perhaps they might decide to give, or could they or would they, give a view to the Central Bank but be doing other work that they wouldn't inform you of, that might be equally as valid an option?

**Mr. Alan Gray:** That isn't anything I could make any comment on, Deputy.

**Chairman:** Thank you. Deputy Higgins.

**Deputy Joe Higgins:** Mr. Gray, your private consultancy company is called Indecon, correct?

**Mr. Alan Gray:** That is correct.

**Deputy Joe Higgins:** When was that founded?

**Mr. Alan Gray:** That was founded about 25 years ago, I think, Deputy.

**Deputy Joe Higgins:** Okay. And you have done over the years, over the decades, work for the Irish Government and the Department of Finance.

**Mr. Alan Gray:** That is correct.

**Deputy Joe Higgins:** Would you ... how would you describe your company's relationship with Government officials and the Department of Finance in this State, and if you would differentiate between that relationship before your time of appointment to the board of the Central Bank and the regulator, during your time, and then since you resigned?

**Mr. Alan Gray:** Thank you, Deputy. I think the relationship of the Indecon research economists with the central ... with the Department of Finance or with the Taoiseach's Department, or any other Government Department, would be seen very much as an independent view on issues and I often say to some of my economists that if someone is looking for a view rubber-stamped they will certainly not ask Indecon for our view. I have heard, Deputy, about lots of major consultancy and, you know, advisory and research work being given to different practices for particular reasons, but not through public tender, but that has never occurred in Indecon's case.

**Deputy Joe Higgins:** And did you also give advice or represent in some capacity, major banks?

**Mr. Alan Gray:** Our research practice has done work in the financial services sector, including for banks. Most of the work in financial services we've been undertaking internationally have been for regulators, such as the UK Financial Conduct Authority, and we did a very major study that you might be aware of for the European Commission on how to protect consumers in financial difficulty. And I'd like to just particularly answer the question about banks. The only bank that we have ever done any research project work for was Bank of Ireland. It was never in relation to any issue that was related to regulation or related to any issues before the Central Bank.

**Deputy Joe Higgins:** So do you feel there was ever a conflict of interest between your company's advising Bank of Ireland, say, and your role on the Central Bank?

**Mr. Alan Gray:** Deputy, if I ... if we were advising them on Central Bank issues, I would have felt there was a conflict of interest, but that has never been the case. And as soon as I was appointed to the board of the Central Bank, in January 2007, I wrote to the Standards in Public Office Commission, described the type of work we had done for Bank of Ireland and asked did they consider there could be any material conflict of interest. And I got a formal response from the Standards in Public Office Commission on 9 February 2007, which said there is no basis to conclude that there could be material influence in the performance-----

**Deputy Joe Higgins:** That's clear enough, Mr. Gray. I'll move on for time reasons.

**Mr. Alan Gray:** Of course.

**Deputy Joe Higgins:** You say in your opening statement, page 4, written one:

However, [this is in relation to the bank bailout etc.] I believe their decision to subsequently force Ireland to avoid imposing losses on bond holders and requiring Irish taxpayers to then bear the cost was morally indefensible. It was one of the worst examples of a small state being forced to socialise losses (i.e. for the taxpayers to pay the costs) while the private sector gains were protected.

And you also said under the paragraph, "Week of Bank Guarantee", page 16:

The Bank Guarantee decision resulted in Irish citizens having to pay a very high and un-

just cost for the banking crisis. Providing a linkage between the sovereign and the liabilities of the financial institutions proved to be a very costly decision.

Mr. Gray, is this by way of recanting from your support and advocacy for a bank guarantee? Because, obviously, the bank guarantee was the origin of why the sovereign and the taxpayer were eventually saddled with this massive debt.

**Mr. Alan Gray:** So, there is no recanting, Deputy, and I'd like to deal with the key elements in what I'm saying. I could understand that the ECB, for international financial stability reasons, might require and make a decision that bondholders shouldn't be burnt at any particular time because of the impact on world financial markets. What I feel is that would be an extremely unjust decision if that was a decision that was made but when combined with the requirement that to meet that worldwide international stability objective one member state would have to pay the cost, was morally indefensible, and I don't make those comments lightly. The guarantee ... that is about burning the bondholders. The guarantee issue is ... the guarantee was an unjust decision but was, in my view, the sensible decision, even though it was unjust, given the terrible options that were available.

**Deputy Joe Higgins:** Mr. Gray, you also said on page 9, "Regulatory systems did not cause the crisis, but did not prevent the practices which led to the crisis." Most fundamentally, what caused the crisis, in your view?

**Mr. Alan Gray:** I think I outlined, Chairman - or not Chairman, sorry, Deputy - a number of key factors. I think there was two major international factors that were of critical importance. One was, with the enthusiasm for having a euro, people ignored the design faults in the euro and did not put in place the institutions necessary to make that work, and my view is that that is still the case, unfortunately.

**Deputy Joe Higgins:** Yes.

**Mr. Alan Gray:** And the second was the Lehman Brothers collapse. And I know the international agencies and the large countries like to downplay that and put all the blame on member states, but I don't accept that.

**Deputy Joe Higgins:** Okay.

**Mr. Alan Gray:** But, within Ireland, then I think there was a range of fundamental mistakes.

**Deputy Joe Higgins:** Yes.

**Mr. Alan Gray:** The mistakes made by the banks themselves.

**Deputy Joe Higgins:** Okay, and on that point - and this is my last point because I'm out of time, Mr. Gray - more fundamentally still, is it appropriate that in a democratic society private financial institutions, which hold enormous power over society, are able to profiteer and speculate at will, and blow up such a massive bubble that then creates, when it crashes, such havoc? Would you not say that that's a more fundamental reason that they have that right or not and the greed for super profits?

**Mr. Alan Gray:** Well, I certainly agree that they should not have that right.

**Deputy Joe Higgins:** But isn't that fundamental to how the capitalist financial markets operate?

**Mr. Alan Gray:** Well, I think that a bank that is prudently managed, properly regulated in an economy with appropriate macroeconomic policies, without inappropriate intervention in the property sector, would not cause a crisis. So, I don't think it's the fact that they're commercial organisations that are the problem. The problem is the mistakes made within the banks and the failure of the regulatory system to stop them making those mistakes, and the fact that that fuel which ... this crisis is all really about what happened in property and was fuelled by inappropriate tax incentives.

**Chairman:** I am going to invite Senator O'Keefe, and I'm going to propose just a five-minute comfort break after that. Senator O'Keefe.

**Senator Susan O'Keefe:** Thank you, Chair. Mr. Gray, did you give any advice to the Taoiseach or anybody else in the Government relating to the troika bailout, or the establishment and operation of NAMA, or the nationalisation of Anglo Irish Bank?

**Mr. Alan Gray:** So I'd like to deal with each of those questions, Senator. Well, there are three different questions.

**Senator Susan O'Keefe:** No, that's fair enough so, Chair, you'll just amend the time. Thank you. Yes, please.

**Mr. Alan Gray:** I did not give any advice in relation to nationalisation. I did not give any advice in relation to the bailout but I did point out in the evidence that I submitted that I and some other external economists were invited to a meeting in the Department of Finance, some time in October, to give our external assessment of what was likely to happen in the economy and what would that mean for public finances, and that was prior to the bailout. But I put that in for full disclosure in case people would be saying, "Well, that was actually related to the planning for the bailout," and it may well have been.

**Senator Susan O'Keefe:** Mr. Gray, you have, as I think one of my colleagues has asked you, you've done consultancy work for very many Government Departments over the years. That's correct. I think you also worked for the Department of Industry and Commerce at one stage.

**Mr. Alan Gray:** That was, I think, my first, well, my second job as a young economist.

**Senator Susan O'Keefe:** And you worked for the Central Bank as well when you were younger, I think.

**Mr. Alan Gray:** I was when, I think, I was 18 at the time.

**Senator Susan O'Keefe:** And just to check, forgive me, you said you did some consultancy work for the Bank of Ireland but not for any other banks. Is that correct?

**Mr. Alan Gray:** That's correct.

**Senator Susan O'Keefe:** And did you do consultancy for the Quinn Group, or for Quinn Insurance or for any of the Quinn Group?

**Mr. Alan Gray:** No.

**Senator Susan O'Keefe:** No, okay. When you were appointed to the board of the Central Bank, you say in one of your annexes that you decided to talk to some of the heads of depart-

ments and the management team, I think, in the Central Bank.

**Mr. Alan Gray:** Yes.

**Senator Susan O’Keeffe:** You took it upon yourself to talk to them. When you did that, did you speak to Mr. Frank Browne?

**Mr. Alan Gray:** So what I was referring to was the heads of departments in the Financial Regulator board, not in the Central Bank board. And the reason I took that view was the Central Bank board was very much an advisory board that looked at general economic developments. As an independent economist, I would assume that if there had been any contrarian views - I am, despite what might appear in this session ... am an extremely informal individual and I would be known in the economics profession, and people would ... I assume, if anyone had any different views ... would have come to me. And economists, by their DNA, are hard to stop giving their views.

But on the regulator board, when I was appointed I thought, maybe because the Central Bank and the regulator was a sort of a hierarchical and a deferential type organisation, I thought it would be important to ensure that there were no views about problems or particular issues which were ... people didn’t feel at liberty to express to the board, and I asked could I meet all the department managers on a confidential basis, one to one.

**Senator Susan O’Keeffe:** Yes.

**Mr. Alan Gray:** I know a number of them expressed some great surprise when they were meeting me. And some of them came in and said, “Why do you want to meet?” And I said, “I want to meet because if there’s any views you want to express, please express them.”

**Senator Susan O’Keeffe:** Did you speak to Mr. Browne?

**Mr. Alan Gray:** No. Mr. Browne didn’t work for the Financial Regulator.

**Senator Susan O’Keeffe:** That’s fine, I am just checking. That’s fine.

On the night of the guarantee when you got the phone call from Mr. Cowen, can you recall, Mr. Gray, what time it was when you got that call?

**Mr. Alan Gray:** It was late in the evening but I don’t recall the time.

**Senator Susan O’Keeffe:** Did Mr. Cowen indicate that there was any agreement or disagreement in relation to where the conversation was heading? Did he say that anyone was favouring one thing or the other, and that he was, if you like, caught in the middle and was not sure? Can you tell us about that?

**Mr. Alan Gray:** Sure. He didn’t, and he didn’t tell me what the Government were likely to do. He asked my view. He said it was being considered to give a guarantee to the banks and what did I think was the market reaction, and did I have any views on them. It was the very same option that was raised at the Central Bank board meeting-----

**Senator Susan O’Keeffe:** Okay.

**Mr. Alan Gray:** -----and I gave my same views that I gave at the Central Bank board meeting and subsequently in the letter, but in a much more shortened version.



**Senator Susan O’Keeffe:** And was he ... was it a conference call or was it just you and him, or were you aware was anyone else listening to the conversation?

**Mr. Alan Gray:** I assumed it was just a direct call-----

**Senator Susan O’Keeffe:** Okay.

**Mr. Alan Gray:** -----and I had no sense it was a conference call.

**Senator Susan O’Keeffe:** And did he indicate that the Minister for Finance was favouring nationalisation?

**Mr. Alan Gray:** He did not.

**Senator Susan O’Keeffe:** You met with the Minister for Finance, I think, on 7 September. Can you tell us what that meeting was for?

**Mr. Alan Gray:** My best recollection of that meeting was that he asked could he meet me to give my views on what was happening in the economy and what was happening in the labour markets. And one of the issues I recall making to the Minister at the time was that it was very important that, in looking at policy responses, it wasn’t confined just to a public finance response.

**Senator Susan O’Keeffe:** So you didn’t talk about banking and you didn’t talk about the state of the banks, because it would have been coming back after the summer and things would have been starting to kick-off again, and the crisis would have been starting to make itself felt. So you’re saying it was just about the economy and not about the banks.

**Mr. Alan Gray:** That is my recollection, Senator, but I could not be 100% clear in my recollection of whether he asked me anything about the international financial markets. But there was no specific discussions on any banking issues, to the best of my recollection.

**Senator Susan O’Keeffe:** Going back to Druids Glen, if I may,-----

**Chairman:** Just wrap up, Senator, please.

**Senator Susan O’Keeffe:** Thank you. You said that the Taoiseach had asked you to come because-----

**Mr. Alan Gray:** That’s right.

**Senator Susan O’Keeffe:** -----because, obviously, you knew the Taoiseach. And did he ask you by way of a phone call or an e-mail, and when he-----

**Mr. Alan Gray:** By phone call.

**Senator Susan O’Keeffe:** A phone call directly to you.

**Mr. Alan Gray:** Yes, directly to me.

**Senator Susan O’Keeffe:** And when it was ... when Mr. Drury explained to you that this meeting would take place in a private house, in his house,-----

**Mr. Alan Gray:** Yes.

**Senator Susan O’Keeffe:** -----what was your opinion of that, because under normal circumstances I am sure you would meet the Taoiseach or a Minister in their own office, not in someone else’s private house? So, how did it arise that you agreed to meet them in a private house?

**Mr. Alan Gray:** I had no difficulty in the location of the meeting, Senator. I would have met respective Ministers of all parties in different locations. I remember, when I was a young economist, being invited by Dr. Garret FitzGerald when he was Taoiseach, to meet him in his house in Palmerston Road.

I was given the directions to the location of this off-site meeting. I’d never been to the house before. I’ve never been to the house since. It was a logistic issue, I understood, because it was a few minutes away from Druids Glen, and I had been informed that the ... some of the other parties were going to play golf subsequently which, as you know from my statement, I wasn’t invited.

**Senator Susan O’Keeffe:** You don’t play golf.

**Mr. Alan Gray:** And I don’t play golf.

**Senator Susan O’Keeffe:** Finally, if I may, Chair,-----

**Chairman:** Quickly, quickly.

**Senator Susan O’Keeffe:** -----when you put your outline ... your schedule and your agenda, it is clear that the schedule or the timeline that you gave for what you were proposing by way of a restoration of the economy, was stunningly tight. You know, you were talking about-----

**Mr. Alan Gray:** Yes.

**Senator Susan O’Keeffe:** -----Government agreeing in two weeks. In fairness, you know a lot about the way government works and you know that most people take a holiday in August, and your timeline was, if I might suggest, very ambitious indeed. So it looks like a very ambitious project that, if you like, really didn’t fit with the kind of meeting. It looks like something from another day or another time that would have required a huge big meeting with a lot of people, and not that kind of meeting. And I am just asking did you have another purpose when you wrote that document originally and did you then think, “Oh, I’ll take that with me because it would be useful.”

**Mr. Alan Gray:** Certainly not, and the timescale was very ambitious. But one of my frustrations as an economist, not only in Ireland but in other European countries, is how slowly governments tend to move and I knew there was a looming crisis. I felt that the response to date by policymakers was inadequate and I pointed that out - it’s printed in the document that I circulated.

**Senator Susan O’Keeffe:** And how did that go down at the meeting when you said that?

**Chairman:** Now I need to break, Senator.

**Senator Susan O’Keeffe:** Yes, I know. How did that go down when you made yourself ... your views clear?

**Mr. Alan Gray:** I felt that the then Taoiseach did not take any offence at that remark and

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was open to, you know, my views on what was happening. I felt the official CSO statistics had a lag and they weren't telling the real crisis in the economy that was happening.

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

**Chairman:** Thank you. It's just coming up to 5.30 p.m. I am just proposing a very short, five-minute break. In doing so, just before we do break, I just need to ... just let Mr. Gray know and inform him that once he begins giving evidence, he should not confer with any person other than his legal team in relation to his evidence on matters that are being discussed before the committee. With that in mind, I now suspend the meeting until 5.35 p.m. and remind the witness that he is still under oath until we resume. Is that agreed? Agreed.

**Mr. Alan Gray:** Thank you.

*Sitting suspended at 5.29 p.m. and resumed at 5.41 p.m.*

**Chairman:** Okay, I'm going to propose we go straight back into public session. Is that agreed? I just want-----

**Senator Susan O'Keeffe:** Chair-----

**Chairman:** Yes, what?

**Senator Susan O'Keeffe:** Could I have a point of clarification when you're ready?

**Chairman:** Quickly now, please.

**Senator Susan O'Keeffe:** Yes, sorry. Mr. Gray, can I just clarify when you were on the phone to Mr. Cowen, was the subject of the Quinn Group, or the contracts for difference, or the dangers they were posing to Anglo, was that raised at all-----

**Mr. Alan Gray:** No.

**Senator Susan O'Keeffe:** -----in the conversation? No. Thank you.

**Chairman:** Thank you.

**Senator Susan O'Keeffe:** Thank you, Chair.

**Chairman:** I just want to deal with one ... just one outstanding item, another question, and then I'll bring in Deputy Doherty. Mr. Gray, in your witness statement you advise:

In attempting to respond to the crisis, extensive use of external advisers was made by the Department of Finance. This included both international financial and legal advisors. Their advisory reports were not shared with the Central Bank non-executive directors and I have only briefly seen some of these subsequently when they have been publicly released.

Were you surprised that the advisory reports were not shared with the Central Bank non-executive directors?

**Mr. Alan Gray:** Not particularly, Chairman. Obviously, as an economist, I like to have full information on everything but I do respect that different parts of the government system decide what they should or should not share.

**Chairman:** What was the rationale for the suppressing of information for non-executive

directors, that there would be this, sort of, editing process? What would you understand this to be rationale?

**Mr. Alan Gray:** So, I'm not sure there was any suppression-----

**Chairman:** Okay.

**Mr. Alan Gray:** -----but there ... because that is a deliberate act to do something but I have no idea why that information was not shared. And, indeed, some of the material that you sent me in my core book of evidence I had not seen previously.

**Chairman:** And did this lack of confidential information, and some of the information on which you've said you've subsequently seen, impact upon the board's knowledge, its functionality or its performance?

**Mr. Alan Gray:** I don't believe so.

**Chairman:** Okay, thank you. Deputy Doherty.

**Deputy Pearse Doherty:** Go raibh maith agat agus fáilte. Can I ask you, Mr. Gray, in minutes you provided to the committee from the Central Bank board, and in your statement as well, we see that the issue of the six-bank guarantee was raised? And a copy of the same minutes that this committee has access to - the reference from the secretariat is core book, John Hurley, Vol. 3, it's on page 33 ... and we see that the Governor told the board, which you attended, of the need to get the two pillar banks on board with the idea of a six-bank guarantee ... and that the Governor went on to say that he would need to talk to the two banks "who to date have been negative on such a proposal". You go on to say in your statement, on page 17, that "there was no suggestion at any time of any option to guarantee some banks but nationalise others, yet we know from evidence from AIB and Bank of Ireland that this was their preferred option ... of those two banks. And, obviously, we know from the board minute that you were informed that AIB and Bank of Ireland were not on board with the six-bank guarantee option. So, what then was the discussion around the need to convince the two pillar banks of the necessity of a six-bank guarantee?

**Mr. Alan Gray:** Sorry, Deputy, I'm just trying to get the precise-----

**Deputy Pearse Doherty:** Yes. You left that bit out from the minutes that you provided ... the bit that talked about the need for AIB and Bank of Ireland to get on board with this, and that they were opposed to this prior to this, to that point.

**Mr. Alan Gray:** I'm sorry, Deputy. I'm just trying to see the particular reference there ... maybe, is it possible-----

**Deputy Pearse Doherty:** If we have John Hurley's book please, Vol. 3. Can we get that, JH, Vol. 3, page 33? It's the next page ... and there it is. So, the minutes ... you've provided these minutes, but the last ... the second last bullet point there wasn't provided, which is, "There was a need to talk to the two banks which to date have been negative on such a proposal." The two banks ... we've seen these bullet-----

**Mr. Alan Gray:** Sure.

**Deputy Pearse Doherty:** -----minutes as well and this is a version for the public, but these two banks were, obviously, AIB and Bank of Ireland.

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**Mr. Alan Gray:** So, I'm so sorry, Deputy. Maybe just give me the question again. I was just trying to focus on the reference. I don't actually see it but I do recall it in the minutes but I just don't seem to have it in front of me.

**Deputy Pearse Doherty:** The question is, Mr. Gray-----

**Mr. Alan Gray:** Yes.

**Deputy Pearse Doherty:** You were informed at this meeting that you refer to in your statements that AIB and Bank of Ireland were not in support of a six-bank guarantee-----

**Mr. Alan Gray:** Yes.

**Deputy Pearse Doherty:** -----and that they would need to be got on board with such an option.

**Mr. Alan Gray:** So, I'm sorry, I'd just like to see the precise wording of-----

**Deputy Pearse Doherty:** Well, the wording that we have, that's available to the public, is this third bullet point from the bottom is ... this is from the Governor ... "There would be a need to talk to the two banks which to date have been negative on such a proposal."

**Mr. Alan Gray:** Yes and I'm just trying to find the reference in the formal board minutes which I did supply to the committee.

**Deputy Pearse Doherty:** You don't include that part in the minute.

**Mr. Alan Gray:** In the minutes at all?

**Deputy Pearse Doherty:** No.

**Mr. Alan Gray:** Oh, yes.

**Deputy Pearse Doherty:** You've included all of the other minute, but you've deleted ... or not deleted, sorry-----

**Mr. Alan Gray:** No.

**Deputy Pearse Doherty:** You've-----

**Mr. Alan Gray:** Yes.

**Deputy Pearse Doherty:** You've left out a paragraph which talks about the fact that AIB and Bank of Ireland were not supportive of this proposal to date and that there would've been a need for the Governor to-----

**Mr. Alan Gray:** I understand, Deputy.

**Deputy Pearse Doherty:** -----talk to them.

**Mr. Alan Gray:** And apologies. The only reason I left that out of the board minutes was that I was proposing that all of the annexes that I had submitted would be publicly released, and because it referred to two specific institutions it was my interpretation under section 33AK that I might be breaching that to include it in my evidence. The legal advice to the commission is that I can't include any of that in my public evidence, so that was the only reason for that. My

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recollection of the minutes ... and not the minutes ... my recollection of the meeting was the Governor explained that there had been discussions with the banks prior to this issue coming before the board of the Central Bank. And he explained that the major banks had up to this date been against a guarantee but that, given the evolving liquidity position, that their view may have changed, and that the Governor and the Department of Finance were going to continue their discussions with the banks.

**Deputy Pearse Doherty:** And is your information that the discussions in relation to this proposal was with how many banks and which banks?

**Mr. Alan Gray:** So, I have no knowledge of that.

**Chairman:** There is phone interference there now coming in, folks. Sorry, just one second now.

**Deputy Pearse Doherty:** It's not me.

**Mr. Alan Gray:** So, Deputy, I have no knowledge of what discussions took place and there was no details of what discussions were likely to take place or with who, but I would've assumed it would have been with all the major banks.

**Deputy Pearse Doherty:** But, sorry, there was actually detail, just to-----

**Mr. Alan Gray:** Sure, yes.

**Deputy Pearse Doherty:** -----put that on the record, because we have the evidence. There was ... you were informed that discussions would need to take place with the AIB and Bank of Ireland, and you were informed that AIB and Bank of Ireland did not support a six-bank guarantee.

**Mr. Alan Gray:** That is correct, yes.

**Deputy Pearse Doherty:** My question is to you: were you informed in relation to whether that issue, as you say, was discussed with the major banks? Was Anglo Irish Bank one of the banks that this issue was discussed with prior to this meeting?

**Mr. Alan Gray:** That's what I'm ... that's what I was trying to indicate, Deputy. I have no knowledge of that.

**Deputy Pearse Doherty:** So, you know what happened with AIB and Bank of Ireland-----

**Mr. Alan Gray:** Correct.

**Deputy Pearse Doherty:** -----that there was previous discussions about a six-bank guarantee-----

**Mr. Alan Gray:** Yes.

**Deputy Pearse Doherty:** -----but not with Anglo Irish Bank or any other banks.

**Mr. Alan Gray:** And it may or it may not. I was not even aware that there was any discussions with the banks on particular policy options until that board meeting.

**Deputy Pearse Doherty:** Okay, can I ask you in relation to going back, unfortunately, to the issue on Druids Glen and you talk about your conflict in terms of the privacy that you've

had and the confidentiality that you've kept in relation to clients or people that you've provided advice to and the fact that you felt that you needed to make a public statement to bring clarity to the public in this matter? Can I ask you in relation to the public statement that you include here to *The Irish Times* where you say you were invited to attend an informal dinner with the Taoiseach in Druids Glen; "The purpose of the invitation was to provide independent ideas [and] stimulate economic growth and to reduce unemployment in Ireland"? Could people suggest that that was misleading in the way that you weren't invited to a dinner in Druids Glen to discuss unemployment and the economic growth in Ireland until you actually were invited to a private meeting in a private residence of a former director of Anglo Irish Bank and, when that meeting hadn't concluded, you were asked to attend a dinner?

**Mr. Alan Gray:** So, I think it is very evident that I was invited to that dinner to provide a continuation of a discussion but I did not refer to the previous discussion. And the reason I didn't; I was trying to balance my approach which would not be to normally issue statements to the media about policy discussions with any governments and when this broke I, as I have mentioned, I was extremely ill and I was trying to make a decision of what to release to balance my normal confidentiality arrangements and to respect people's privacy but yet to put out in detail what the content of that interaction was about. I was aware that the house we were in was an ordinary family home. I did not know whether Mr. Drury had children or not and I felt I would be breaching a personal issue of normal privacy and I didn't think it mattered, the location of it.

**Deputy Pearse Doherty:** I appreciate that and in relation to ... did you give any thought to the fact that you were making a public statement that this dinner and this discussion happened in an open forum in a hotel with a Garda driver present where, indeed, the substantial discussion happened in a private residence behind closed doors with no garda present and only the Taoiseach and three other connected senior persons with Anglo Irish Bank? Did you consider that that would be the type of detail maybe that the public would have been looking for at that time, instead of corroborating what had already been released through questions to the Taoiseach in the Dáil?

**Mr. Alan Gray:** I think all of the other participants chose to make no statement. I felt it was important to make a statement to deal with what was the nature of this discussion and I made that decision realising that I would be breaching my normal approach to respecting people's privacy and confidentiality but I felt it was important to have that in the public domain.

**Deputy Pearse Doherty:** Okay.

**Mr. Alan Gray:** And I did not think there was any issue about it being, you know, behind closed doors. Most meetings that I would have with Government Ministers would be behind closed doors. You know, in general you don't have them out in open, but I didn't think there was any attempt to hide the fact a discussion was proceeding. If there was, you know, one would hardly choose a public golf course hotel to have an open discussion and dinner. It wasn't in a private room in the hotel, it was in the general just-----

**Chairman:** Okay, Deputy.

**Deputy Pearse Doherty:** Okay, can I finish on this point here just in relation to the notes that you provided in terms of the-----

**Mr. Alan Gray:** Of course.

**Deputy Pearse Doherty:** -----not the agenda, but the document or the points of discussion

that you brought to the meeting? These have obviously been ... this document has obviously been altered, as you've outlined to the committee, since that meeting. Can you provide the committee with the original documentation if you still have access to it and can I ask you the point in relation to a number of the measures? The number of the ... a number of issues that you were discussing with the chairperson of Anglo present and two of the directors was, for example, additional equity for investment in start-ups; measures for credit fund for home ownership; we have guarantee that mortgage interest tax breaks wouldn't be reduced when the Government would have to implement different austerity measures; social housing ... local housing ... social housing being sold back to the owners to invest in construction. Some of these matters - and it was touched on by one of the Deputies-----

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

**Deputy Pearse Doherty:** -----it is very much about credit in the economy. How is it possible to have senior bankers in the room, somebody from the Central Bank and talking about measures that you believed would introduce credit for the ... in the economy ... for people to buy their own house - consideration of a home buying scheme was another measure that was on the agenda - yet no discussion in relation to banking? Like, was the chairperson of Anglo Irish Bank, you know ... this obviously, like these ... some of these measures - it's stated in it - that it would be in conjunction with the State and the financial institutions. How ... is this not banking that's being discussed?

**Mr. Alan Gray:** So, a couple of points, Deputy. You suggested that the document was altered. It was not altered. I highlighted in blue my interpretation of what I was discussing under each of the headings. I can, of course, supply the commission with the original documentation but it is identical to the document that you have, which has all the points in black other than the ones in blue. The issues, if I can go on to the particular areas that you're raising, were not about banking. They were about trying to deal with what I felt was the escalating unemployment position and the issue of social housing I don't think had any relevance to the banking sector. It was something that I felt very strongly about and normally in a context like this, one would not disclose information like this, but I came from a family that was homeless at one stage and I ended up in local authority tower blocks in Ballymun and I know the importance of people not having a house and this was a policy issue which I felt would have a social benefit and which would help create employment. It was nothing to do with banking.

**Chairman:** Thank you. Deputy McGrath, please.

**Deputy Pearse Doherty:** Sorry-----

**Chairman:** Sorry-----

**Deputy Pearse Doherty:** Sorry, Chair, but there was specific measures - because in fairness to Mr. Gray, you did answer the issue on social housing - but there are specific measures here where you proposed co-operation between the State and financial institutions, which I presume would be Anglo Irish Bank as well, with the chairperson of Anglo Irish Bank sitting there with two directors there, where there would be working relationships between State and financial institutions. Is that ... I'm wondering how could the conversation not evolve in relation to banking. It's just, you know, somebody put it to me that-----

**Chairman:** The proposition has been made. I'll let Mr. Gray respond to it.

**Mr. Alan Gray:** Yes. So, it didn't and none of those issues would be relevant to Anglo Irish



Bank. They weren't in the general residential mortgage market. When I was looking at consideration of a home-buy scheme, I was referring to a social initiative in the UK to have a similar scheme. I outlined similar schemes in New Zealand. These were not issues about banking. I think any objective economist would look at these and say these are issues about an economist identifying the scale of the crisis which had not yet been interpreted.

**Chairman:** Thank you. Deputy McGrath, please.

**Deputy Michael McGrath:** Thank you very much, Chair. Good afternoon, Mr. Gray. Just if I can take you to that letter of 25 September '08 addressed to Mr. Kevin Cardiff, and you have spoken about this at length so we should be able to get through these questions quite quickly. There weren't any terms of reference for that paper, I think you've confirmed that. It was your own initiative following the discussion that you had just attended at the Central Bank meeting. Can you outline the supporting evidence and analysis you placed the greatest emphasis on when preparing this or what documents did you have regard to or was it just from your own mind that you prepared this paper?

**Mr. Alan Gray:** Thank you, Deputy. It wasn't from any specific documents that I prepared it to but it was based on my very rigorous interpretation of what was the scale and nature of the issues that were facing the banking sector from my role in the Central Bank. In my role as chairman of London Economics, we have experience in about 80 countries internationally.

**Deputy Michael McGrath:** Yes.

**Mr. Alan Gray:** I've advised on countries as diverse as Cuba and Germany and all sorts of countries and I was aware of international experience in a number of these areas, and it was based on that analysis. I had indicated to the Department of Finance and to the Governor that I knew they had their own teams of advisers but I believed in sharing my inputs, for what they were worth, outlining the need to look at a wider range of options. I put the ECB option as the very first one because I felt that that would be the normal response. If this was in the US, the Federal Reserve would have been taking actions-----

**Deputy Michael McGrath:** Sure.

**Mr. Alan Gray:** -----rather than individual states. And the other issue I was very keen to highlight, based on my analysis, was this wasn't just a liquidity issue. There was four challenges facing ... and I was concerned that everyone might think there was one. There was: to improve liquidity in banking; to deal with issues in individual banks; to reduce the State exposure; and to restructure the sector.

**Deputy Michael McGrath:** And that's all set out in the paper.

**Mr. Alan Gray:** Yes.

**Deputy Michael McGrath:** And just to clarify, in preparing this paper on that evening, you didn't consult with anybody else?

**Mr. Alan Gray:** I did not consult with anyone else.

**Deputy Michael McGrath:** Okay, and the recipients were Mr. Hurley, Mr. Cardiff, to whom it was addressed, and the ... David ... is that David Doyle?

**Mr. Alan Gray:** David Doyle, yes.

**Deputy Michael McGrath:** So he was sent a copy as well.

**Mr. Alan Gray:** And my recollection, Deputy - but I can't be 100% sure of this - is that I would've also sent it to the chairman of the financial regulatory authority because that tended to be my approach to make sure there wasn't "silo thinking" in coming to a very important policy decision.

**Deputy Michael McGrath:** Sure, and apart from the Central Bank authority meeting, which informed your decision to write this paper, did you have any direct discussions before writing this or, indeed, after this ... after writing it, with Mr. Doyle and Mr. Hurley about this paper?

**Mr. Alan Gray:** Only to say I think I probably rang the Secretary General of the Department to tell him that-----

**Deputy Michael McGrath:** Okay.

**Mr. Alan Gray:** -----I was couriering a letter to him and I would have done the same with the Governor of the Central Bank but they ... I would have had no discussion on the content of it-----

**Deputy Michael McGrath:** Okay.

**Mr. Alan Gray:** -----or subsequently.

**Deputy Michael McGrath:** Okay, and with the Minister for Finance, Mr. Lenihan, did you have any direct discussions with him around this time?

**Mr. Alan Gray:** I did not.

**Deputy Michael McGrath:** No. And can I ask, Mr. Gray, at that time, were you the beneficial owner of any shares in the Irish banks or ... either directly or through investment portfolios that you might have had a share in?

**Mr. Alan Gray:** I had no shares in any Irish bank and I had no commercial property interests.

**Deputy Michael McGrath:** Sure, and that would ... no shares in Irish bank would extend to include any investment portfolios that you had?

**Mr. Alan Gray:** It would.

**Deputy Michael McGrath:** Were not invested in the Irish banks?

**Mr. Alan Gray:** Yes.

**Deputy Michael McGrath:** Thank you. Can I ask you: when did you first realise that additional capital would have to be injected into the banks?

**Mr. Alan Gray:** I felt ... certainly in early October, I felt that there was a likelihood of the need for additional capital in the banks and in terms of my views on that ... it was based on emerging research that was coming from the PwC and other analysis that I knew that that might be a possibility. It was also a feature of probably every banking crisis that banks subsequently needed some additional capitalisation.

**Deputy Michael McGrath:** Okay.

**Mr. Alan Gray:** But, just so I am very clear, Deputy, it wasn't until really the start of January 2009 that I became very convinced of the need for additional capital in the banks.

**Deputy Michael McGrath:** Sure. But just to clarify this point because the ... you know, early October is only a few days after the end of September-----

**Mr. Alan Gray:** Yes.

**Deputy Michael McGrath:** -----and by 20 October, you were writing to Kevin Cardiff specifically addressing issues around the capitalisation of the banks and the possibility of additional capital being needed. That was followed up with a further letter on 19 November, which is in annex 6 ... 16 rather, which you provided to us. So, my question is, when you were preparing the paper on 25 September and, indeed, when you had the discussion with the Taoiseach on 29 September, was it anywhere in your mind at all that providing a guarantee for the banks would inevitably have to be backed up by injecting additional capital into those banks?

**Mr. Alan Gray:** It wasn't my view that that was a certainty but it was my view that that would be a possibility.

**Deputy Michael McGrath:** But it isn't referenced, to my knowledge, in the paper - is it - of 25 September?

**Mr. Alan Gray:** No. I felt there was ... on 25 September, I felt there were four issues that needed to be dealt with. The first one was the issue of liquidity ... that I felt that there was a restructuring and action in individual banks that would be required. And if one looks at the actions to reduce risk and potential Exchequer exposure in specific individual banks, which I outlined, I identified three options: one, management changes; one, restrictions on loans; and, thirdly, a managing down of the loans. And that is really an ... like, banks need capital depending on their scale and size and there's two ways of really addressing that - one is to put in more capital or one is to scale down the organisations. I also felt that in relation to banks, the best option, if it was feasible, would be to sell the banks or sell part of them to a institution that would have a wider capital base. And in my response to individual banks who had liquidity issues, the options that I had outlined was to seek a trade sale as a strong ... to a strong, credible institutional buyer and I pointed out that that was the best option and should be pursued but it was unlikely to be feasible in the current circumstances. So there was ways, in dealing with the potential issues that would need to be dealt with subsequently, that might have, you know, have involved responses other than the State putting in capital.

**Deputy Michael McGrath:** Sure, but the paper makes no reference at all to the possibility of the State having to put in capital.

**Mr. Alan Gray:** It doesn't but I was attempting, after a long Central Bank board meeting, to give my individual views on what I thought was the key issues and I mightn't have dealt with everything-----

**Deputy Michael McGrath:** Sure.

**Mr. Alan Gray:** -----but I was outlining what I thought were points that the Department and the Central Bank should consider.

**Deputy Michael McGrath:** But by 20 October, you were writing directly about the State

injecting capital through the pension reserve fund or other sources in exchange for preference equity shares. That was one of the options you were specifically setting out.

**Mr. Alan Gray:** An option, yes.

**Deputy Michael McGrath:** Yes.

**Mr. Alan Gray:** And it was in January 2009 that I had come to the firm view that additional capital was required. The banks had been told to do very detailed stress testing and they came back and said that they didn't need additional capital to meet regulatory requirements and to deal with the levels of expected bad debts. And some PwC scenarios were suggesting the same issues and I just did not believe that was correct.

**Deputy Michael McGrath:** Sure. Finally, do you now believe, looking back, that in your discussion with the Taoiseach on the night the guarantee was decided or a number of days previous when you did take the initiative to document some key points and key challenges that the State was facing, that you should have identified the likelihood, or the possibility at least, that the State would have to inject money into the banks by way of recapitalisation?

**Mr. Alan Gray:** I don't have a firm view on that, Deputy. I'm very open to people saying I didn't identify all the issues but I haven't really thought about that particular question.

**Deputy Michael McGrath:** I only ask it because, you know, less than a month later you wrote a specific paper on the capital requirements of the banks, which included the prospect of the State injecting capital and this was before the State had made any announcement that it was likely to have to inject capital into the banks. That came, I think, on 28 November ... was the first reference by the State. So you seemed to realise very, very quickly after advocating the possibility of a guarantee-----

**Mr. Alan Gray:** Sure.

**Deputy Michael McGrath:** -----that it would involve the State injecting money into the banks.

**Mr. Alan Gray:** I think, first of all, I didn't advocate a guarantee. I was outlining the need to look at other options and to outline the risks in relation to a guarantee and I felt ECB action was a more appropriate action. But I have seen almost in every case whereby worldwide liquidity markets become into significant difficulties, the interaction between solvency and liquidity changes and that requires additional capital. The regulator was being asked to send in teams of accountants to come up with an assessment of whether capital was needed and I did not have certainty on that time of whether it would or not.

**Deputy Michael McGrath:** You say you were not advocating a guarantee, but if you look at the paper of 25 September, under the heading, "A. Improved Liquidity in the Banking Sector", which was the burning issue of the time, you set out the options. One, the preference of an ECB intervention, which it became clear - if it hadn't been clear already - that that was not going to happen, and then under "Potential National Responses", there are five options. Four of them involve a guarantee, either a commitment to provide one or an actual guarantee. The only one not involving a guarantee is the banks setting up a liquidity war chest which, in your comment box, you say "probably not feasible this week".

**Mr. Alan Gray:** Sure, Deputy. The reason that-----

**Deputy Michael McGrath:** So if I was reading that, I would interpret it as advocating a guarantee.

**Mr. Alan Gray:** I understand that, Deputy, if one interpreted that letter in isolation from knowing that earlier that day, we were informed that the main option being considered was a bank guarantee. I was responding to that proposition. And just for the record, I believed that the bank guarantee, which was a horrific and unjust decision on the Irish people, was the best option because of the restricted options that were available by the time we got to the night of the 29th.

**Chairman:** Thank you very much. Senator MacSharry.

**Senator Marc MacSharry:** Thanks very much and thanks very much, Mr. Gray, for being here. Can I ask with regard to your letter of 25 September 2008 to Mr. Cardiff about the strategic options, what information was available to you relating to the liquidity or solvency of the Irish financial institutions prior to providing the advice to the Taoiseach?

**Mr. Alan Gray:** So I think there was very ... so that was not advice to the Taoiseach, Deputy, that was advice to the Department of Finance and to the Central Bank and to the Financial Regulator in my role as a director of the Central Bank. So, just for clarity, it wasn't advice to the Taoiseach. But in terms of the information that I had access to, I had no access to any information other than what was available to all the members of the regulatory board and all the members of the Central Bank board, which was very detailed information on the solvency position.

**Senator Marc MacSharry:** And do you believe that the level of management information available to the Central Bank and regulator was sufficiently robust to appropriately inform some of the most significant decisions ever made in the history of the State?

**Mr. Alan Gray:** I think there was very detailed and robust evidence on the liquidity position but I think the position in relation to the solvency and the need for additional capital was very deficient.

**Senator Marc MacSharry:** What could have been done better at that time? I mean, you mentioned that liquidity and solvency was purely ... the difference was purely a matter of valuation on a given time. So, what is your view on what ought to have been done better in assessing the solvency at that time?

**Mr. Alan Gray:** I think that there should have been more forensic investigation of the property development loans and I think there should have been more downside risks in the stress testing that was undertaken.

**Senator Marc MacSharry:** But given the time available, presumably, was this possible do you feel?

**Mr. Alan Gray:** No. I mean I ... the committee are probably very aware of the book on the fall of the Celtic tiger by Professor Antoin Murphy who ... I don't know whether he has given witness evidence here but I consider him to be the most insightful economist with expertise in this area. And I agree with assessment really that there has been undue attention on to the guarantee decision, which was probably the best option of the terrible options available but the horrific mistakes were made by many people prior to the guarantee and sometimes very significantly prior to and also post the guarantee.

**Senator Marc MacSharry:** Yes, okay, just back to Druids Glen briefly. When you were going to the house for the private meeting, were you aware that there was onwards then to Druids Glen for dinner? Was that always part of the plan or?

**Mr. Alan Gray:** It was not part of a plan involving myself. I was invited for a meeting on the morning-----

**Senator Marc MacSharry:** Okay.

**Mr. Alan Gray:** -----and I understood that the meeting would conclude then, while some of the other parties went to play golf. I had not been invited to dinner previously and I had no intention of going to dinner with the group.

**Senator Marc MacSharry:** Okay.

**Mr. Alan Gray:** Just so I'm clear, and at the end of the meeting, probably because of the level of detail of the notes and analysis that I was presenting, the Taoiseach asked would I be able to meet the group later to continue the discussion over dinner.

**Senator Marc MacSharry:** Okay, so golf intervened and you continued the discussion afterwards and you went elsewhere. You didn't play golf so you linked back up with them later on. Isn't that correct?

**Mr. Alan Gray:** I went back to my office to work on other issues and I was not even certain whether I would have been able to go for dinner because I had some other plans but I decided that this issue of unemployment is so important that I'm not going to give up the opportunity to-----

**Senator Marc MacSharry:** So, you came back after the golf for that and for all the world, the meeting stopped at the house and it resumed at the public forum in the restaurant in Druids Glen.

**Mr. Alan Gray:** That's the case.

**Senator Marc MacSharry:** And the golfers could have talked about football, banking or God knows what for the 18 holes or nine holes or six holes or whatever. Would that be fair?

**Mr. Alan Gray:** I don't think I'm in a position to comment on that.

**Senator Marc MacSharry:** Absolutely. We don't know in other words. So they didn't say to you, "Well, look we're going to consider this over our golf and we'll talk to you later on." There was none of that.

**Mr. Alan Gray:** No.

**Senator Marc MacSharry:** Okay. Do you feel that, considering the credentials of everybody involved, notwithstanding your own view on it and what you've said, that somebody considering the attendees at this event might find it somewhat hard to believe that banking wasn't discussed? Would you think that's outlandish or do you think it's reasonable?

**Mr. Alan Gray:** I've heard that comment, Deputy, but, certainly, anybody who knows me knows that I would not be discussing banking issues with an individual bank and the Taoiseach present while I was a director of this bank.

**Senator Marc MacSharry:** Absolutely, and you've been clear on that and we've ... you've given your word on that and so on. But, again, in your experience of life, not least economics, could you appreciate that that's a point of view that somebody could quite reasonably have, looking in?

**Mr. Alan Gray:** I accept that it's a view that someone may have but I've found in lots of areas of life people seem to have great certainty on what happens, but often the certainty has no relationship with the facts.

**Senator Marc MacSharry:** Indeed, and then there's the concept of the balance of probability. You'll be familiar with that, I'm sure.

**Mr. Alan Gray:** I think I would be fairly good on probabilities.

**Senator Marc MacSharry:** Yes. So just two very final questions, Chairman. And it's back to your time on the Central Bank. Would you've be familiar with Tom O'Connell as chief economist in the Central Bank?

**Mr. Alan Gray:** I would.

**Senator Marc MacSharry:** He would have given evidence here that, despite his proximity to the bosses and the board and the 7th floor - indeed, he met personnel, he told us, regularly at the water fountain there - he had extreme difficulty in getting his message across to the board on the basis of what he called the political and property vested interests within that board. Is that your experience of having talked with him, bearing in mind your own view that economists aren't for hiding behind the door in terms of making their views known?

**Mr. Alan Gray:** I was surprised to hear that evidence and I'm not sure what period he was referring to in the evidence, Deputy, whether it was a period when I was on the board or some period previously. But I never felt there was any restrictions on what people would say at the board and I ... being a non-party political person, I never noticed any politically ... party politically driven views -----

**Senator Marc MacSharry:** Or property?

**Mr. Alan Gray:** Or property.

**Senator Marc MacSharry:** Okay, and he did say that he regularly ... this is the second part of that question and I have one very final one, Chairman, if its okay. The ... he said he regularly presented to the board. Obviously, he was brought in to give presentations and so on.

**Mr. Alan Gray:** He did, yes.

**Senator Marc MacSharry:** Would there be anything to prohibit, for example if he'd have said "Look, while I'm here, I have concerns about such a thing." Would that opportunity have ever been afforded to somebody like him?

**Mr. Alan Gray:** It certainly would.

**Senator Marc MacSharry:** Okay. That's good, that answers that. You mentioned how, in part of your dual representation down on the board of the regulator, that you requested a specific private meeting with each of the individuals from each of the sections.

**Mr. Alan Gray:** Yes.

**Senator Marc MacSharry:** Again, we had people who claimed to be dissenting voices from those sections that were in here. The evidence will show who they were. Did any of those people highlight to you, “Look”, you know, I’ve had serious concerns here. I don’t have enough staff”, or, “Nobody’s listening”, or, “There’s a bubble building”, or, “We’re not doing anything on the macro-prudential regulatory side, we’re ignoring that and focusing just on the consumer side”, as some of the evidence seemed to depict? Was this not in private and the benefit that these “surprised people”, as you put it-----

**Mr. Alan Gray:** Yes.

**Senator Marc MacSharry:** -----were able to share that with you? Did that not ring alarm bells for you or did they just simply not share anything with you?

**Mr. Alan Gray:** No such views were expressed to me, Deputy. I asked could I meet all of the divisional managers and I said I wanted to meet them one by one. It was suggested that maybe they should meet me with a group or something. I said, “No, I want to meet everyone one by one.” And it was asked why did I think this was appropriate and would it not be best to deal with it in the board and I said I felt, as a new board member just coming in in 2007, I wanted to have the opportunity to meet the key people and hear one-to-one. And at no time ... I said to them, and again I said it ... in the context of what I find a slightly frightening public context in this, I might be a bit more formal than I normally am, but I said, “Look, I’m a non-executive director of this. If you have any views that you wish to express to me, give them to me in confidence because I want to understand what are the issues.”

**Senator Marc MacSharry:** And is it fair to say nobody did?

**Mr. Alan Gray:** And the only issue raised, which was a great surprise to me, was a great concern about the IT systems in the Financial Regulator and difficulties in getting adequate service from the Central Bank.

**Senator Marc MacSharry:** Thanks very much.

**Mr. Alan Gray:** Thank you.

**Chairman:** Senator Michael D’Arcy.

**Senator Michael D’Arcy:** Thank you, Chairman. Mr. Gray, you’re welcome.

**Mr. Alan Gray:** Thank you, Senator.

**Senator Michael D’Arcy:** Can I ask you, Mr. Gray, following the visit by two senior Anglo Irish execs to your office on the day of the guarantee, you subsequently spoke with An Taoiseach, Brian Cowen, did you tell him during that telephone conversations that both of those executives had attended your office during the day?

**Mr. Alan Gray:** I did not and I did not refer that to anybody else. I did not give any great import to that. And the Taoiseach was asking my advice in the middle of a crisis situation and I felt if I was to refer to the fact that two executives had come to my office, that it might give an undue prominence or could be misunderstood in some way. And I did not mention it to the Taoiseach or anyone else. And I decided, when the issues of the Druids Glen discussion came public, to make a public announcement on that.

**Senator Michael D’Arcy:** And with the benefit now of hindsight, should you have told the



Taoiseach?

**Mr. Alan Gray:** I don't think so. I regret I'm ... that I maybe should've told the Governor of the Central Bank but I don't ... I think if I refer to that it might be misinterpreted as some way suggesting I was trying to promote their interest.

**Senator Michael D'Arcy:** Okay. In the month of September, were you aware that the Central Bank were ... was pairing institutions or having conversations and some ... with one institution with another?

**Mr. Alan Gray:** Were they ... sorry, Deputy?

**Senator Marc MacSharry:** Were they attempting to pair institutions?

**Mr. Alan Gray:** I was aware of some of those discussions because they were referred to at the Central Bank board. But there was no detailed discussion on them and they were seen very much as an issue that the Department of Finance and the Central Bank were leading.

**Mr. Alan Gray:** Okay. Mr. Gray, you're an experienced individual as well as an experienced economist. If ... could I ask your view in relation to the ... the bank guarantee? When I say "in relation to the bank guarantee", was there any other likely option to be taken on the night of the bank guarantee itself, considering what's been said to us this morning by PwC, what you've said in relation to the minutes of 25 September and the conversations that were held up to the night of the guarantee? Was there any other likely option to be taken by those in that room on that occasion?

**Mr. Alan Gray:** I think once it became clear that the ECB were going to do nothing, then the only options were either to guarantee the banks or pump a massive amount of capital into the banks or nationalise the banks.

**Senator Michael D'Arcy:** That was all. Can I now ask the question that I've asked previously? It was known that the Anglo bonds were due on a particular date-----

**Chairman:** Yes, okay. Just be careful of prejudgment now, Senator.

**Senator Michael D'Arcy:** I shall be careful, Chairman, as always.

**Chairman:** No bother.

**Senator Michael D'Arcy:** Why wasn't something done on the weekend, rather than waiting for the following week to come?

**Mr. Alan Gray:** Well, my understanding ... so I'd have no detailed knowledge of why something wasn't taken or not but it was very clear at that critical Central Bank emergency board meeting on the 25th that options had been considered, that the advisers were doing further work, that the Central Bank and regulator were being asked to refine and examine the options over that weekend, including ... and NTMA were at that meeting to give advice to the Government early the following week. So in terms of could anything else have been done, I am not privy to that Deputy.

**Senator Michael D'Arcy:** I'm trying not to make a judgment here now, Mr. Gray, but we've been told that if you were taking a bank down, you could only do it at a weekend. And, the weekend came and went.

**Mr. Alan Gray:** I don't understand why you couldn't take a bank down on a Monday night.

**Senator Michael D'Arcy:** In terms of ... well, that's been the evidence that's been given by Governor Hurley - that if there was something to be done, it would be done at a weekend when you would have more time, more hours, rather than a number of ... a small number of hours during the week.

**Mr. Alan Gray:** I suppose that depends on the amount of planning that was done in advance and there would be some evidence ... I am not sure whether Northern Rock, when the UK Government initially gave a guarantee and then subsequently nationalised it...whether they did it at a weekend or not, I wouldn't have thought it's impossible not to...but I defer to Governor Honohan's views.

**Senator Michael D'Arcy:** Okay, sure. Did you see former Governor Hurley's evidence where he used the term in relation to some of the powers available to the Central Bank as "theoretical"?

**Mr. Alan Gray:** I, unfortunately, have not had the opportunity because I've been working extensively in Europe and advising to look at all the evidence of other people, but I'm happy to give any comment on-----

**Senator Michael D'Arcy:** No, if you haven't seen it, you know, I don't see the point. Can I ask, Mr. Gray, you entered the Central Bank in early '07?

**Mr. Alan Gray:** That's correct.

**Senator Michael D'Arcy:** And the final FSR report was concluded and that final FSR report outlined the substantial increase in household debt. It was, clearly, itemised as an area of substantial concern.

**Mr. Alan Gray:** Yes.

**Senator Michael D'Arcy:** Why was it allowed go unchecked or was the matter raised at board level? This State went from one of the lowest household debt, 71% of GDP, going back to '97, to a predicted figure of 248% of GNP.

**Mr. Alan Gray:** Senator, it certainly was raised and I think in my evidence earlier today I pointed out that it was an issue raised by the Central Bank directors, including myself, when we asked for further investigation of that issue.

**Senator Michael D'Arcy:** And finally, Mr. Gray, in September '08, in your witness statement, you state, "In addition to two institutions which were being very closely monitored by the Regulator, one of the other institutions advised that **"if markets do not improve they risked breaking liquidity ratios in a matter of weeks."** What actions did the Central Bank Financial Regulator take to support the two institutions?

**Mr. Alan Gray:** They would've provided not just to those institutions but to other institutions - and they had been doing this for some time - access to ECB funding. But there was... the only other option that they could've taken was emergency liquidity assistance and they had concerns on that.

**Senator Michael D'Arcy:** Were proposals by the Central Bank or the Financial Regulator or the financial institutions of the other financial institutions, were any proposals made to assist

those two that were in immediate difficulty?

**Mr. Alan Gray:** So my understanding from the briefings given to the board that there was discussions with the other banks about whether they would be willing to give support to address what was then seen as a liquidity problem.

**Senator Michael D’Arcy:** Did you personally present any proposals to the Taoiseach to assist either of the two institutions?

**Mr. Alan Gray:** I did not present any proposals to the Taoiseach to assist those institutions or any proposals to any other parties to assist those two institutions.

**Senator Michael D’Arcy:** Thank you.

**Chairman:** Excellent. Thank you very much. We are going to start moving towards wrapping things up. Deputy Phelan.

**Deputy John Paul Phelan:** Thank you, Chairman. Mr. Gray, just returning again to annex 9 of your statement where you said, “No one from Anglo had ever asked me to take action on their behalf or to make representations on their behalf.” I want to put a quote to you from a book produced by Bruce Arnold and Jason O’Toole called *The End of the Party*, page 15, specifically, where it states:

When he was Finance Minister, Cowen appointed Gray as Director of the Central Bank and the Financial Services Authority of Ireland and also as a member of the Irish Financial Services Regulatory Authority (IFSRA)...

In late 2010, Indecon contacted the website forum politics.ie to ask them ‘to point out that despite what’s being posted here and alluded to, Indecon have never acted for Anglo Irish Bank in any capacity’.

Only days prior to the banks’ bailout, Drumm says he and FitzPatrick met with Gray as a ‘go-between’ between Anglo and the Department of Finance. He says the intervention was needed because Finance ‘wouldn’t tell us what way they were thinking’.

According to Drumm, calls were made to Alan Gray. He was asked: ‘What should be done? What are they thinking? Are we doing the right things? Are we doing the *wrong* things?’ There could be no direct communication with the Department of Finance.’ At meetings there attended by Drumm and FitzPatrick, the officials would sit and listen and look. In the end no one was any the wiser. According to Mr. Drumm, ‘They wouldn’t tell them what to do. They wouldn’t help us.’

I’m sure you’re probably familiar with that particular quote; it’s at variance with your own annex 9 statement that you didn’t act on, you know, questions that were raised with you by Anglo. Can you answer it?

**Mr. Alan Gray:** So, there’s absolutely no truth in that statement. My evidence is the factual evidence on the position. I did consider taking legal libel action against the publishers and there was something in a newspaper that I subsequently .... more recently as a leaked version of Mr. Drumm’s non-admissible statement was issued-----

**Chairman:** Careful. I won’t draw into the content of Mr. Drumm’s statement as that’s still a matter that’s under consideration with the DPP.

**Mr. Alan Gray:** I understand, Chairman, and I won't refer to that but there was a similar allegation to that one in the book by a national newspaper where they actually didn't even state that this individual has alleged this. They stated I'd had made those contacts and representations and had presented proposals to the Taoiseach on this. And I have never sued any newspaper and I believe in open discourse and even though I probably would be a lot wealthier tonight if I did, I chose not to, but that doesn't mean there's any basis for those suggestions.

**Deputy John Paul Phelan:** Okay.

**Chairman:** Final question.

**Deputy John Paul Phelan:** In your witness statement you advise regarding to the guarantee:

I first heard of this as the main option being considered at an Emergency Joint Central Bank meeting on 25 September but it must have been worked on much earlier. The Governor of the Central Bank and the Department of Finance briefed the Board and indicated that a guarantee of the liabilities of banks was being considered.

I have about...there's five parts to the question, brief answers if you can. Did the Governor and-or the Department of Finance advise how a guarantee solution came about?

**Mr. Alan Gray:** They did. They indicated that they're...through the domestic standing group, there was advisers appointed by the Department of Finance and they had also indicated at that meeting that there had been discussions with the banks.

**Deputy John Paul Phelan:** Okay, so the second part is outside of who was involved ... so outside of the discussions with the banks and the domestic standing group were there others involved in that?

**Mr. Alan Gray:** Well, I have no knowledge of that...any of those discussions. The first I heard about it was at the Central Bank board and there was no reference to discussions outside of those parties at that meeting.

**Deputy John Paul Phelan:** Okay. Was the extent of the liability of the guarantee discussed or quantified?

**Mr. Alan Gray:** So, they certainly quantified the amount of loans that are liabilities in the banks. I think it...just...I don't have as much energy as members of the committee but it was either €600 billion or €400 billion was quoted in the statement and that was the only assessment that was shared with the Central Bank.

**Deputy John Paul Phelan:** Okay. Are you aware if discussions had already taken place either formally or informally with the ECB or other institutions about the suitability of a guarantee?

**Mr. Alan Gray:** I understood from being on the board of the Central Bank that there had been extensive discussions with the ECB in the run-up to the guarantee position because once Lehman Brothers went bust and was allowed, very foolishly in my view, to be liquidated, it meant that interbank funding ended and a world financial crisis happened in 14 or 16 countries subsequently. And the ECB was very much aware of this. There was very regular contact by the Governor, which was reported back in a general sense to the board and I understood as it got near the date, maybe even daily telephone discussions. But exactly what was discussed, or

not, I'm not quite sure.

**Deputy John Paul Phelan:** Briefly, then, what other strategic options were discussed at the meeting?

**Mr. Alan Gray:** So the only other strategic option - which is in the board minutes that I shared but is under section 33AK - was to provide a bond to ... a State bond to provide credit to the banks, which would've been effectively a guarantee. When there was a discussion on that, they indicated that that would have a particular risk for Ireland's credit rating, and I did not get the impression that it was being seriously considered.

**Deputy John Paul Phelan:** Okay, thank you.

**Chairman:** Thank you very much. Senator Barrett.

**Senator Sean D. Barrett:** Thank you, Chairman, and thanks again to Mr. Gray. Did the Central Bank have rules for board members in relation to contacts with the sector you were regulating?

**Mr. Alan Gray:** So they did, Senator, have a code of conduct but it didn't have any restriction on meeting or interacting with ... with others.

**Senator Sean D. Barrett:** Mr. Begg, when he was here, said there was no training at all for board members. Was that true in your time?

**Mr. Alan Gray:** I believe that if any board members had've asked for training, it would have been provided. Prior to joining the board, at my own expense I took training in the Chartered Institute of Accountants about the roles and responsibility of directors because I was aware of the significance of the issues that the Central Bank would be dealing with.

**Senator Sean D. Barrett:** And you told us earlier that Bank of Ireland was the only banking client?

**Mr. Alan Gray:** That's correct.

**Senator Sean D. Barrett:** Okay. And the Department of Finance and the Taoiseach's Department, were they clients of yours?

**Mr. Alan Gray:** So in relation to the Department of Finance and the Taoiseach's Department, Indecon, as you know, which is the research practice I lead, is one of the largest groups of research economists in Ireland. Similar to the ESRI, we would tender for projects. We've never been awarded projects except by public tender from those organisations. My understanding is, and I haven't checked all the detailed records but, from memory, Senator, I don't think we did any work at all for the Department of Finance or for the Taoiseach's Department when I was on the board of the Central Bank.

**Senator Sean D. Barrett:** So you didn't have a conflict of interest?

**Mr. Alan Gray:** No, definitely not.

**Senator Sean D. Barrett:** Just the last one then. When Mr. FitzPatrick and Mr. Drumm came to see you, were they trying to get you to assist in the sale of Anglo?

**Mr. Alan Gray:** They were not.

**Senator Sean D. Barrett:** Okay. Thank you very much.

**Mr. Alan Gray:** Thank you, Senator.

**Chairman:** Thank you very much and I'm just going to wrap up very briefly. In your witness statement, you advise that the guarantee was not thought on the night of the ... or, sorry, the guarantee was not thought up on the night of 29 September but arose from extensive analysis by the Department of Finance, Central Bank Governor, regulator and with the other involvement of teams of external advisers. By, kind of, implication or by just, kind of, the outline of that, it could appear that your comments on the guarantee would seem to imply a predetermined guarantee scenario was already evolving or developing or had developed. Would that have been the case, yes?

**Mr. Alan Gray:** So, Chairman, just ... I want to be very careful on the language here.

**Chairman:** Yes.

**Mr. Alan Gray:** In terms of predetermined, if you mean a decision had already been taken, I don't think that would be an accurate reflection.

**Chairman:** Okay.

**Mr. Alan Gray:** But was it presented back on the Thursday, at 25 September, as, really, the main option being considered, the answer is definitely "Yes".

**Chairman:** In terms of probability, to use that term, this was probable or not more than other things on the table?

**Mr. Alan Gray:** I think it was dependent on a few issues, Chairman. One is whether liquidity markets would improve or deteriorate-----

**Chairman:** Okay.

**Mr. Alan Gray:** -----and, secondly, whether there would be any ECB-wide initiative. And in my note on that date, I did point out that what we had to be very careful of is that the ECB does not leave us on our own and then subsequently put in policy initiatives which could have benefited Ireland, and I believe that is actually what happened.

**Chairman:** And you covered that earlier this evening with us as well.

**Mr. Alan Gray:** Yes.

**Chairman:** You say that a liquidation of Anglo would've been much better for the Exchequer but much worse for the economy. In what way would the Irish economy have suffered from this and can you put any figure on it?

**Mr. Alan Gray:** If there was a liquidity ... if Anglo Irish Bank was liquidated, I believe that there would've been a bank run in Ireland and I think the economic consequences would've been catastrophe.

**Chairman:** Okay.

**Mr. Alan Gray:** And we have examples of this, Chairman. If you look at what happened in Argentina, when there was the bank run, or in a number of other countries.

NEXUS PHASE

**Chairman:** And, finally, I just want to come back to the call that Mr. Cowen, the Taoiseach, made to you that evening. He rings you - what's the content of that telephone call actually?

**Mr. Alan Gray:** The content of the telephone call?

**Chairman:** Yes, what was the purpose? Mr. Cowen, obviously, has a reason for ringing you.

**Mr. Alan Gray:** Sure.

**Chairman:** He wants to discuss .... what's he ringing you about?

**Mr. Alan Gray:** So, he was ringing me as an independent director of the Central Bank and one which ... the documentary evidence you will have seen, Chairman, shows that I have very independent views and am not-----

**Chairman:** I-----

**Mr. Alan Gray:** No, but I just want to ... and he was in the process of trying to make a decision on this. The Central Bank board, of which I was a member, were told that the Government would be seeking their advice. And he rang me to indicate that the Government were considering ... he didn't say that they were going to do it, he said they were going to consider providing a bank guarantee and did I have any views on it and what did I think would be the market reaction.

**Chairman:** Okay. So, as you said earlier, the guarantee was in the ether in terms of probabilities or whatever. We'll see what the weight of that actually is but we know, or it has been presented here from testimony, that the issue of including or not including Anglo in the guarantee is a very significant discussion on the night. The Minister for Finance and the Taoiseach have different views on it and, in fact, the room seems to be split very much on this. And the issue of nationalising or not nationalising Anglo is, by the testimony so far, whether it was the biggest issue or not on the night, was certainly ... certainly a live issue inside in the room. Did the Taoiseach at any time discuss either the inclusion of Anglo in the guarantee or not or the nationalisation of Anglo or not?

**Mr. Alan Gray:** He did not and it was not raised at the board meeting on the previous Thursday. So some ... for some reason, something happened between that Thursday and the Monday. And if he had've asked my view, I would've been willing to give it, and my view-----

**Chairman:** And what would it have been?

**Mr. Alan Gray:** My view would've been that it would be a mistake unless we had undertaken the due diligence. Because it is a really important issue, Chairman, that I have seen in so many cases - the private sector comes to the state with a failed institution and wants them to nationalise it, and the cost is always with the taxpayer and-----

**Chairman:** And earlier that afternoon, the CEO and chief executive ... sorry, the chairperson and chief executive officer had called to you, told you about all their problems.

**Mr. Alan Gray:** Yes.

**Chairman:** You were cognisant of that. The Taoiseach's on the phone to you. There is a guarantee being put in place ... the extension of the guarantee. By your own volition, do you

think you maybe should have had that discussion and told the Taoiseach that there ... you had a visit from these gentlemen that afternoon and, on the information that you had, this is the exposure the State would actually be taking?

**Mr. Alan Gray:** Chairman, just to be clear, I never said I felt, even in retrospect, I should have told the Taoiseach. I felt then and I feel now it would've been a mistake to mention that to the Taoiseach because it could've been misinterpreted as suggesting that I had some, you know, issue and the Taoiseach might have asked me about what Anglo were talking about, and it wasn't relevant to what I was being asked by the Taoiseach.

**Chairman:** Okay. I'm going to wrap things up, Mr. Gray. I certainly appreciate, and the committee does, your co-operation this afternoon. We've, kind of, a long schedule today and we've a bit of an overrun. Is there anything you'd like to say? I know in your opening statement you gave some recommendations for the future, which the committee would always welcome to hear in terms of our report. Is there anything other than that that you'd like to further add this afternoon?

**Mr. Alan Gray:** No, Chairman, just to thank members for their impartiality and their courtesy. I was going to say, Chairman, when you were asking me that question, that I hope the committee will consider some of the gaps that currently exist, which are ... need to be addressed to potentially prevent another crisis. And I haven't had an opportunity at this session to outline the details of what I think would ... are those gaps in detail, other than the short ideas I have outlined. And if the committee would find it useful to have some subsequent written views from me on those, I would be willing to do that.

**Chairman:** Okay, by means of correspondence, that's always welcome. In terms of ideas, we never have enough ideas, as we know, without a formal legal process and all the rest of it, Mr. Gray, so thank you very much for that offer. With that said, I now propose that in thanking Mr. Gray for his participation and engagement with the inquiry, that we formally excuse him and doing so, that we will suspend until 7:15 p.m. Is that agreed? Agreed.

**Mr. Alan Gray:** Thank you very much.

*Sitting suspended at 6.51 p.m. and resumed at 7.25 p.m.*

*Additional debate to follow shortly.*

### **Anglo Irish Bank - Mr. Tom Browne**

**Chairman:** 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? Our final hearing of this evening is with Mr. Tom Browne, former director of Anglo Irish Bank. Mr. Browne was a director of Anglo from 2004 to November 2007. He joined Anglo in 1990 and was a member of the Dublin lending division from 1990 to 2000. He retired from Anglo in November 2007 and stepped down from the board at the same time. Mr. Browne, you are very welcome before the committee this evening and thank you for your co-operation in being here.

Before hearing from the witness, I wish to advise the witness that by virtue of section 17(2)