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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 10 Meán Fómhair 2015

Thursday, 10 September 2015

The Committee met at 9.00 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.

I think my final word is the perspective should be if one looks at the experience with this programme, what could have been done better. Possibly that is the perspective but in the acknowledgement that the programme was by all standards a success. And I take the example of other Community programmes within the euro area and with the EU and I take the standard also of other IMF-only programmes outside Europe. So from that viewpoint, I think the programme is a success. Then one can look at the data and here and there certain things could have been done but I think we have learned a lot from this experience of this programme but overall, I think we are confident that should the economic policy of Ireland continue to be anchored to stability, reforms, growth, fiscal prudence, that the future of Ireland is bright.

Chairman: Thank you, Mr. Buti. And in wrapping up this session, I would like to thank you for your participation here today and for your engagement with the inquiry and to also formally acknowledge the ECB's assistance and co-operation with the inquiry ... sorry ... yes I wish, I wish ... the Commission's co-operation and assistance with the inquiry right from the outset in its various stages. So with that said, the witness is formally excused and I propose we break for one hour to return at 4 p.m. Is that agreed? Agreed.

Sitting suspended at 3.03 p.m. and resumed at 4.10 p.m.

Department of Finance - Deputy Michael Noonan

Chairman: I now call the committee back into public session. Is that agreed? Agreed. We will now commence our third and final hearing of today and our final public hearing in total of the banking inquiry and, in doing so, we are now engaging with Mr. Michael Noonan, TD, Minister for Finance. The Committee of Inquiry into the Banking Crisis is now resuming in public session. I can remind members and those in the public Gallery to ensure that their mobile devices are switched off.

The final hearing of the inquiry is with Mr. Michael Noonan, TD, Minister for Finance. Minister, you are very welcome before the committee this afternoon.

Deputy Michael Noonan: Thank you very much.

Chairman: In this session with Minister Noonan, we will focus on the Government's responses to the crisis since taking office. In particular, we will examine what key decisions were made with regard to ongoing management of the bailout; what was the impact of implementing the measures agreed; is macroeconomic policy now being managed in a fiscally responsible manner in line with EU treaties and other obligations; with regard to the regulatory and structural reforms implemented post-crisis, how effectively have these been implemented, operated and managed; and what else remains to be done.

Before hearing from our witness this afternoon, I don't need to bestow privilege on Minister Noonan; as a Member of the House, he has that already as a right. But I would advise the witness that you are directed to only give evidence in connected with the subject matter of these proceedings and if directed by the Chairman to cease giving evidence in relation to a particular matter, not to do so. I would also remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right, and members of the public and journalists are reminded that these documents are confidential and should not publish any of the documents so displayed.

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

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

Deputy Michael Noonan, Minister for Finance.

Chairman: Mr. Noonan, welcome before the committee this afternoon and if I can invite you to make your opening remarks please.

Minister for Finance (Deputy Michael Noonan): Thank you very much Mr. Chairman. I welcome the opportunity to appear before this very important committee. The banking crisis has had a profound impact on country and it is essential that we learn from the mistakes of the past to ensure that they are not repeated. It was unprecedented in its scale and the measures that were required to address it and I will do my best to help the committee in its most challenging and important task. You have my statement so I won't read it all out. Instead I will focus on some key aspects of the crisis during my time as Minister for Finance.

At the time of my appointment as Minister for Finance in 2011, we were entering the fourth year of the crisis. Over €34 billion had been injected into Anglo Irish Bank, Bank of Ireland, and Ireland had entered into a joint EU-IMF programme the previous December. The country faced not just a banking crisis but a major fiscal crisis with public finances which were in a poor state. General Government debt had risen to over 100% of GDP and the general Government deficit reached was some 31% of GDP by 2010 or 10.6% on an underlying basis.

In the face of this crisis, I, as Minister for Finance, and my colleagues in the Government made a commitment in the programme for Government to fix the broken banking system, restore order to the public finances, regain and enhance our international competitiveness, support the protection and creation of jobs, radically reform our system of public administration and rebuild Ireland's reputation on the international stage.

We had the aim of renegotiation to secure a programme of support and solution to the banking crisis that would be perceived as more affordable by both the Irish public and international markets. We succeeded in a number of areas - achieving reduced interest rates, extending maturities, the promissory note arrangement, reversal of the minimum wage cut proposal, the jobs initiative and agreement on the use of some proceeds of asset sales for productive investment. We also replaced harmful revenue-raising measures with more targeted growth-friendly measures. And, of course, we also got an extra year for the adjustment.

Despite the large sums of taxpayers' money injected into the banking system at that point, there was still little or no confidence at home or abroad in the strategy pursued to this point. There were also serious question marks as to what the ultimate cost of recapitalising the banks would be and indeed whether or not it was affordable. It was made clear, however, any doubt over Government's commitment to recapitalising the banks would create a serious risk of se-

vere financial instability.

The banking strategy announced on 31 March 2011 was designed to answer these questions, build confidence in the banking system and the country, and to draw a line once and for all under the cost of the banking collapse to Ireland. Building upon the advice of the Department of Finance, the NTMA and the Central Bank, I announced the Government's pillar banking strategy. The strategy set out the Government's plans in relation to what I would describe as the going-concern banks, that is, Bank of Ireland, AIB, EBS and Irish Life and Permanent. It was the Government's response to the announcement by the Central Bank of Ireland of the results of their PCAR or stress tests. The objective was to have smaller, domestically focused and well-capitalised banks operating in Ireland. A joint restructuring plan for the other banks, Anglo Irish Bank and Irish Nationwide, had been submitted to the European Commission by the previous Government in January 2011 and these institutions had no role in the strategy at that time. The memorandum to Government on 29 March 2011 made clear that any doubt over the Government's commitment to recapitalising the banks would create a serious risk of severe financial instability. Building the banking strategy around a robust PCAR exercise was vital in my view to rebuild confidence in the Irish banking system. The Government was fully committed to the process from the outset. PCAR identified capital requirements of €24 billion and the recapitalisation of the banks announced in March 2011 proceeded later in that year.

We pursued a number of measures to reduce the cost of the €24 billion identified in the 2011 PCAR. We wanted to reduce the cost for the taxpayer, obviously, for ... and we intervened for AIB and Bank of Ireland with ILPs. The liability management exercises with subordinated bonds reduced the cost of the bailout and the recap of the banks. We had asset sales also and we had the injection of private capital. By the end of 2011, these actions on all three fronts had reduced the total cost of the 2011 recapitalisation to €16.4 billion. Burden-sharing with junior bondholders contributed €5.4 billion to this reduction. Since 2011 we have continued to work the pillar bank strategy in the best interests of the Irish taxpayer. Permanent TSB now plays an important role in this strategy as a strong challenger bank to AIB and Bank of Ireland. Bank of Ireland and AIB have returned to profitability and profitability for PTSB is forecast this year. All three institutions are well-capitalised, have completed the comprehensive assessment in 2014 and the State's shareholding in these institutions are now valuable assets. We have started to recoup the taxpayer's investment through fees and disposals and have seen the value of the taxpayer's shareholding in AIB and Bank of Ireland and PTSB continue to rise. At the end of May 2015, we had recovered €5.5 billion from disposals and €5.5 billion in fees and income. In addition, our shareholding in AIB is currently valued at €13.3 billion and the market value of our shareholding in both Bank of Ireland and PTSB stands at €1.6 billion each; a shareholding in each bank of 14% and 75%, respectively. We will continue to manage the shareholdings in the banks in the best interests of the Irish taxpayer and I am confident that, over time, the full amount invested in these banks will be recovered and used to reduce Ireland's debt levels. The timing of the recovery will be very much determined by the timetable and decisions taken in relation to AIB.

The joint committee will be aware of AIB's interim results announced recently. Following discussions between my officials, AIB and their respective advisors, the bank sent a submission to the SSM requesting permission to make changes in their capital structure. The purpose of the request is to make the bank's balance sheet fit for purpose under the new regulatory rules and to start the process of returning cash to the State. We await a response to this submission, which will be granted ... which will not be granted until the SSM informs the bank of its minimum capital requirements, but this should happen in the next few weeks.

As AIB's finance ... chief financial officer indicated recently when the bank announced its results, between the contingent capital instrument we hold, dividends and the redemption of preference shares, it is easy to see over €3 billion being returned to the State in the near term, if the restructuring was to go ahead as planned. Some market commentators are obviously predicting it could be nearer to €4 billion. We can't be definite on the final quantum involved yet and neither do we know the exact timing. Some of the money could be returned to us by the end of this year or it may all fall into next year. Obviously, the sums involved are quite large though and they will help reduce the national debt. It's important to remember that this is before one takes into account any receipts from the sale of shares in AIB. It would be inappropriate for me to make any further comments on the matter at this time bar to say that once we hear from the Single Supervisory Mechanism I and my officials will take stock of the situation and decide appropriate next steps.

The role of the Minister for Finance is broader than simply ensuring the banks return to profitability. The financial system must function day in, day out and must serve the country and its people by providing access to credit at affordable levels. As a small, open and trading economy it is absolutely vital that our payment systems work efficiently for citizens and business. The Government recognises that small businesses play a central role in the sustainable recovery of the Irish economy. To facilitate this, Government policy since 2011 has been focused on ensuring that viable SMEs have access to an appropriate supply of credit from a diverse range of bank and non-bank sources. As part of the 2011 recapitalisation exercise, the Government imposed SME lending targets on AIB and Bank of Ireland for the three calendar years 2011 to 2013. Each bank was required to sanction lending of at least €3 billion in 2011, rising to €4 billion in 2013 for new or increased credit facilities to SMEs. Both banks have achieved these targets. Activity in the economy is now driving the demand for credit and lending in the first six months of the year. My Department received and, indeed, continues to receive annual lending plans from the banks. Meanwhile, the banks continue to meet my officials on a quarterly basis on SME sector issues.

In terms of mortgages, the amount of new mortgage lending has increased from a low point of €2.5 billion in 2011 to almost €3.9 billion in 2014. In the first six months of this year the level of new lending has continued to increase by approximately 50%. The current scale of lending is, nevertheless, well below the levels that prevailed before the property and credit bust. However, that market and those credit levels were not sustainable and accordingly gave rise to the property crash. It is important that appropriate policies and banking practices are put in place to ensure that the bad experiences of the past are not repeated and that in the future new lending is affordable for the borrower and sustainable for the lender. The Government is committed to working with the Central Bank, with mortgage providers and other relevant parties to ensure that this happens.

I'll turn now to IBRC. The decision to recapitalise and nationalise Anglo Irish Bank and Irish Nationwide was taken by the previous Government and €34.7 billion had been injected in these banks in 2009 and 2010. IBRC was at that time reliant on some €41 billion in emergency liquidity assistance, known as ELA, from the Central Bank and a revised restructuring plan for IBRC submitted by the previous Government in January 2011 assumed a funding strategy of €50 billion. In the absence of any alternative funding model from the ECB it was essential that the merged institutions retained its banking licence and access to ELA. As such, maintaining Central Bank funding to support the wind-down of IBRC was the most prudent approach to protect the taxpayer. Various alternative sources of long term funding were explored but did not prove possible. It was only when a long-term viable solution for the promissory notes was

found and the system more generally had stabilised, that we decided to liquidate the bank.

The issue of burden sharing with IBRC was considered. There was €3.7 billion of unsecured unguaranteed senior debt in Anglo and INBC in early 2011. As IBRC was different from the other banks, the Government pushed for burden sharing for these bondholders, conditional on the support of the ECB. In advance of my statement on banking matters on 31 March 2011, I had sought ECB support and the initial speech that I made to the Dáil ... the draft of the initial speech that I made to the Dáil included a statement on burden sharing for this €3.7 billion. However, despite our best efforts, it was made clear to both the Taoiseach and myself and my officials that the ECB would not support such a statement or moves to burden share with IBRC. Weighing up the potential savings of €3.7 billion that would accrue to IBRC against the immediate and devastating impact of withdrawal of ECB support on Ireland, the Government took the decision not to proceed with the burden sharing with senior bondholders.

The promissory note for IBRC required a payment of €3.1 billion each March to the Central Bank. I discussed proposals in consultation with the Central Bank, the NTMA and the troika to restructure the banking sector, to improve the terms of the debt associated with the IBRC promissory note and replace the ELA funding provided to IBRC. I also sought the support of my European counterparts to bolster support at political level in the EU for our approach to IBRC. Because of these efforts, agreement was achieved on the strategy to liquidate IBRC. This involved the appointment of a special liquidator to IBRC to accelerate the winding down of its business operations, discharging the liability of IBRC to the Central Bank in a way that ensured no capital loss for the Central Bank, while the remaining loans of IBRC would be sold on the market or, if necessary, transferred to NAMA and, finally, converting the IBRC promissory note to a portfolio of fully marketable long-term Irish Government bonds. Through these actions the promissory notes and IBRC were to be eliminated from the Irish financial landscape with consequent reputational benefits.

The success of the liquidation to date has far exceeded expectations and has been critical to the restoration of confidence in Ireland. In March 2014, I announced that the debt acquired by NAMA as part of the promissory note transaction was now expected to be repaid in full following the successful conclusion of the sale of the majority of assets in IBRC. This debt was fully repaid in October 2014. The success of the loan sales processes negated the need to transfer any assets to NAMA as part of this process and removed any residual risk of further calls on the Exchequer. The outcome illustrates the strong confidence of investors in the Irish economy and its future prospects with 355 parties across 13 countries interested in the various portfolios. In addition, the special portfolio of Government bonds held by the Central Bank continues to accrue significant savings to the Exchequer compared to the cost of servicing the IBRC promissory notes.

It is important to emphasise that the crisis was not limited to the banking sector only but also due to the crisis in the public finances which ran in tandem. This hugely contributed to the problems faced by Ireland. In fact, the cost of cumulative fiscal deficits since the onset of the crisis has been considerably in excess of banking costs. Following a very difficult period the public finances are continuing to move in the right direction. The underlying general Government deficit in 2011 was nearly 9% of GDP. The deficit for this year is expected to be closer to 2% of GDP. The consistent over-achieving of the deficit targets over these years was key to restoring market confidence in Ireland. I am pleased to state that we are very much on course to exit the EDP at the end of this year. As you will be aware from the spring economic statement which estimated that a fiscal space of between €1.2 billion and €1.5 billion may be available

for public spending increases and tax reductions in budget 2016, while achieving an underlying deficit of below 2% of GDP. The continuing improvements in the general Government deficit has helped reverse the trend of increasing debt in recent years from a peak of some 120% of GDP in 2012 to below 100% next year.

The employment recovery has been jobs rich. In the second quarter of this year we saw continued employment growth of 3% on an annual basis, bringing total employment back to levels last seen in the early part of 2009. This growth represents an annual increase of 57,100 jobs which is almost exclusively full-time contracts. Unemployment has fallen significantly from its peak of 15.1% in 2012 to 9.5% in August of this year. Relative to peak levels, this represents 120,000 fewer persons unemployed and a rate which is 5.5% lower.

Growth has recovered following the contraction in output in the early years of the crisis. Ireland has re-emerged as the fastest growing economy in the European Union, with growth of 5.2% in 2014. The economy has rebuilt on a number of strong sectors and the level of GDP last year exceeded its 2007 pre-crisis peak, with a more sustainable composition. Actually, with today's very strong growth figures, with the economy growing at 7% in the first half of the year in net terms, *per capita* growth will also exceed the 2007 level ... would have exceeded it now this year.

The actions I have taken as Minister is part of the overall desire of the Government to ensure that we learn the lessons of the previous crisis. The effectiveness of the current governance regime has been enhanced by a suite of reforms to the Irish banking and regulatory system, initiated at both an Irish and EU level. Such reforms include the European banking union, which will provide for centralised supervision and will help to rebuild trust and confidence in the European banking sector. Importantly, the link between the banks and the sovereigns has been broken and the bailouts of banks has been replaced with bail-ins. At the domestic level, a significant amount of reform was undertaken in the financial regulation, with increased resources and a substantial amount of the legislation, including the creation of a statutory central credit register. Similar reforms have been implemented for fiscal policy, with the Fiscal Responsibility Act, the establishment of IFAC, and enhanced EU monitoring and governance. These reforms will form the foundation of a strong and effective governance structure, which will go a long way to making sure a boom and bust-type of cycle will not reoccur.

In conclusion, over the past few years it has achieved a considerable amount as a result of hard work and sacrifice of the Irish people. It is important that we learn from past mistakes and that we consolidate and build on our successes, which are now bearing fruit, to provide a better future for all of us. Thank you very much, Chairman and members.

Chairman: Thank you very much for your opening comments, Minister Noonan. We'll get questions under way, so if I can invite Deputy Joe Higgins. Deputy, you have 25 minutes.

Deputy Joe Higgins: Thank you. Mr. Noonan, the extensive availability of property tax incentives has been identified in front of this commission as one of the contributory factors to the financial crisis. Now, in this regard, to what extent do you believe that the capital gains tax exemptions for properties bought between December 2011 and December 2014 may have led to an overheating of the property market in recent times? And can you elaborate on why was it decided to grant exemption for capital gains tax, which benefits investors-speculators but is mostly irrelevant for owner-occupiers? And, lastly, has this policy made it more difficult for potential homeowners to get onto the housing ladder?

Deputy Michael Noonan: Well, first of all, I agree with you that the widespread availability of tax breaks for property investment was a contributory cause to the banking crisis and, consequently, to the fiscal crisis. The property market was stimulated beyond what an economy of our size could justifiably bear and it led, in the first instance, to ... when the property bubble burst, it led to a situation where the collateral underpinning bank loans was no longer worth the loans, so it didn't prop up the loans anymore. So, that commenced the banking crisis. And then it was immediately connected to the fiscal crisis because the Exchequer at that point was relying quite heavily on transactional taxes coming from building-construction, income tax-PRSI from the workers and VAT from the property itself. The rule of thumb at the time was, when I was debating these matters in the Dáil, for every 10,000 houses, the Exchequer was getting €1 billion in transactional taxes. So, when, in 2007, it became clear that there was a falling away on housing starts and that, depending on who you listened to, instead of 100,000 houses finishing in 2008, it would be 50,000, 40,000 or 30,000. It was easy to do the sums. So, if your decline was from 100,000 to 40,000, for example, the rule of thumb was that was €6 billion less to the Exchequer. So, you can see how the banking crisis quickly became a fiscal crisis and, consequently, a sovereign crisis, because the two were linked.

Now, to get to the point of your other question, then, your associated question. In the first budgets that I introduced, I progressively removed the property-related taxes and all the, kind of, section 23 stuff, and all that family of tax breaks was removed. My advice was it couldn't be removed in one fell swoop, but it was eased out over a number of tax years, so that was taken off the Exchequer. The ... we raised capital taxes then in a subsequent budget. I think they were historically, in Mr. McCreevy's time, down to 20%; they're at ... 33% now is the capital tax rate. So, that was part of the increases the present Government brought in. I think what you're referring to on the capital tax breaks was that I decided that persons who bought property - commercial property mostly, but it also probably applied to blocks of apartments - between certain years, would get a tax holiday if they held it for seven years. And that was done because, if you think back to 2011 and 2012, there was no property market. There was nothing happening, nobody was buying anything and we had to incentivise the situation to get people in to buy property. We had, effectively, to create the market.

But I'd a second reason for doing it as well. There was always a risk that when you're creating a property market by interventions, that you'll sell at very low values initially and your purchasers will flip the property and make extravagant profits on the short term. And that was why we had a condition attached that they had to hold for seven years to avail of the break. But I discontinued that then ... it was for a ... it was time-bound, it was for a three-year period.

Deputy Joe Higgins: Some people might find it ironic that what was one of the causes of the bubble and then the crash is again being recycled in relation to trying to come out of a crisis. And would you not have considered other measures? For example, in view of the homelessness crisis, a major public house-building programme ... would that not be an alternative to these kind of failed in the past tax breaks?

Deputy Michael Noonan: This was an entirely different incentive. This incentive was to enhance the possibility that people with a lot of capital would buy vacant properties and underused properties in Ireland. It wasn't for building; it was for purchase. And it was when nobody was buying anything and there was properties all over Dublin, either not used or underused. So, it was a tax incentive to purchase, to create a property market when we had none. It's easy to be wise now and talk about it and all. I wouldn't do it now; that's why it was time-bound and that's why we discontinued it, but it did work.

On the other hand, the domestic residential property is a different issue. And you'll recall that two years back, I brought in a property ... an incentive for people who would build extensions to improve their own homes. And that's a tax break on income tax and that has generated about €400 million of activity. And, in parallel, the Minister for the Environment has brought in a very strong package on social housing and provided money to all the local authorities to do exactly what you advise. And I understand he's in the final stages of designing a further residential housing package, which he will publish in the near future.

Deputy Joe Higgins: We'll move on because of time. In reply to a recent parliamentary question, you noted that the State has received over €12.7 billion from bank-related levies, investment income and dispositive investment since the bank guarantee came into effect. Now, it would take a long time to outline the aggregate, how that was aggregated. So, could I ask you perhaps if a detailed ... these detailed estimates could be provided in the form of detailed figures to the inquiry so that we can use it as evidence, but also if you'd have a general comment to make just now?

Deputy Michael Noonan: Yes, I think the inquiry probably has that information already because it was provided in a number of PQs and the PQs were available to the inquiry, but I'll provide it again if the inquiry think they don't have that information.

On a general comment, you know, there were fees paid on the guarantee, for example. The much maligned guarantee was given to banks but they have to pay fees on it. So, the accumulated fees come to quite an amount of money. Irish Life was sold, for example, and a lot of money came in. The contingent capital that was put into Bank of Ireland, known as CoCos, that was realised for ... I don't know ... about €1.5 billion or €1.7 billion or something like that. So, I mean, I stand over the cumulative figure, but like yourself, I don't have the breakdown for you now. The breakdown is available and I certainly will provide it.

Deputy Joe Higgins: Your Department can provide it again if that ...

Mr. Noonan, in November of 2010 in Dáil Éireann, you were highly critical of the bailout package, the troika package and, in particular, the lack of burden sharing with bondholders, more popularly referred to as burning bondholders. Now, can I just ask you in relation to that and explore a little bit with you since you came into government your policy in regard to burning bondholders or so-called burden sharing? On page 18 and 19 of your statement - the written statement to the inquiry - you said, and I quote: "There was 35 ...". Sorry, this is a paraphrase, there was €35 billion of senior unguaranteed bonds remaining in the six covered banks when this Government took over in March 2011. €3.7 billion of that was held by Anglo Irish Bank and Irish Nationwide. Now, do you recall ... Mr. Noonan, your Government took office, I think, on 9 March 2011, if I am not mistaken. Do you recall, shortly after, on 28 March 2011, giving a briefing in the sycamore room of Government Buildings to Government Ministers and Central Bank officials on bank recapitalisation, but also in relation to burden sharing?

Deputy Michael Noonan: Yes.

Deputy Joe Higgins: Okay. Did the briefing outline plans to enforce burden sharing on senior bondholders in Anglo Irish Bank and Irish Nationwide Building Society?

Deputy Michael Noonan: There was a briefing. The normal process that we had from the start of the Government was to brief the Economic Management Council first, the EMC. That was Minister Howlin and the Taoiseach and the Tánaiste and myself. But that would be

reinforced subsequently then, because we didn't have the constitutional authority to make decisions. So, I would have carried ... I would have taken a memorandum to Government and the Government would have made all the decisions about the recapitalisation of the banks and the possibility of burden sharing.

Deputy Joe Higgins: And when did the Government make the decision to burden share?

Deputy Michael Noonan: On the Tuesday before I announced the recapitalisation of the banks on the Thursday, which I think was 30 March, the end of March anyway.

Deputy Joe Higgins: Okay. And then, Mr. Noonan, you say in your written statement again that on 31 March 2011 you were due to address the Dáil at 4.30 in the afternoon on banking issues. And the draft of your speech at 1.30 p.m. you say, said as follows: "The Government will, however, having consulted with the external partners, legislate if necessary to allow for burden sharing with senior bondholders in those institutions", referring to Anglo Irish Bank and to INBS. Was the amount of bonds involved detailed in your draft as well?

Deputy Michael Noonan: Yeah, I mean ... you referenced something I said in the Dáil in November of 2010. I don't recall saying it. But my position on burning bondholders or haircuts or burden sharing, whatever phrase you like to use, has been consistent. I became finance spokesman for my party in the summer of 2010. And all the way through - and you can check the record - I said that I thought that we should burden share with senior bondholders, but that we would only do it with the consent of the European Central Bank. That was the position. That's what's in the Fine Gael manifesto and that's what's in the programme for Government. It may not be in those exact words.

Deputy Joe Higgins: Right.

Deputy Michael Noonan: And then, when I went to Government, again I was given the authority to consult with the European authorities, and particularly with the ECB to see if I could get their consent. So when I was drafting speeches then for going into the Dáil -----

Deputy Joe Higgins: Was the amount in the draft?

Deputy Michael Noonan: Yes.

Deputy Joe Higgins: And what amount was that?

Deputy Michael Noonan: It was what you quoted there.

Deputy Joe Higgins: €3.7 billion?

Deputy Michael Noonan: Yes, whatever senior bonds were in Anglo at the time.

Deputy Joe Higgins: Okay. Mr. Noonan, are you aware of a book called *The Price of Power*, by Pat Leahy, who is political editor of *The Sunday Business Post*?

Deputy Michael Noonan: Yes, yes. I read it one time.

Deputy Joe Higgins: Yes. And Mr. Leahy says: "By Thursday morning 31 March, the ECB had woken up to the Irish intention of imposing losses on senior bondholders in Anglo" and that a series of conversations between Frankfurt and Dublin, as it was put, took place. Can you tell us about those conversations please?

Deputy Michael Noonan: Well, I mean, I can, but what I would like to do first is, if you will permit me Chairman ----

Chairman: I will allow the Deputy a bit of time. Just hold the clock a second there. Minister Noonan.

Deputy Michael Noonan: I'd like to give you the Government decision.

Chairman: Okay.

Deputy Michael Noonan: Because I think it is a better opening position to actually read the Government decision into the record. And then I'll take all the questions, including the one you've just put to me, if that's all right.

Deputy Joe Higgins: Okay.

Chairman: We'll stop the clock Deputy. That's fine.

Deputy Michael Noonan: So, it was the Cabinet meeting to which you referred, and this is a letter to my private secretary from the secretary to the Government, which is the way decisions are communicated around Government Departments. So it says:

I am to refer to the memorandum dated 29 March 2011, submitted by the Minister for Finance concerning banking matters and to inform you that at a meeting held today, the Government decided:

(1) authorise the Minister for Finance to progress discussions relating to bank restructuring and the Minister's response to the results of the banks' stress testing with the external authorities, that is the European Union, IMF and ECB, in advance of the release of the 31 March of the results of the prudential capital assessment review, PCAR, carried out by the Central Bank of Ireland.

(2) agree to adopt the strategy recommended by the national authorities to the Minister for Finance for a major reorganisation of the domestic banking system, as detailed in the memorandum, encompassing in particular (i) the creation of two core pillar banks, on the basis of the planned future restructuring and deleveraging of AIB and BoI; (ii) substantial further downsizing of the Irish banking system through the implementation of the banks' deleveraging plans agreed with the Central Bank of Ireland; (iii) an internal split in the banks' loan books between core and non-core assets; (iv) the merger of EBS into AIB for financial stability reasons, following the termination of the sales process for EBS and the expected identification of a significant additional capital need for EBS; (v) the expected sale of the insurance arm of Irish Life & Permanent to meet expected capital requirements; (vi) the strong likelihood of majority State ownership of both Bank of Ireland and Irish Life & Permanent to meet expected capital needs; (vii) significant reform of bank boards and Government's arrangements; and (viii) all of these to be subject to the necessary clearances from, for example, DG Com.

(3) noted that discussions are continuing between the Central Bank of Ireland and the external authorities on the draft PCAR results and the current indications are that the final figure will be approximately €21 billion to €24 billion in gross terms, with some element, approximately €3 billion, being in the form of contingent capital. That is to be recouped if it is not needed in the relevant timeframe.

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(4) [and this is relevant particularly to your question] agree that measures should be taken in agreement with the EU-IMF-ECB to mitigate the costs of further recapitalisation of banks and this should be announced. Such measures would include burden sharing, private investment and asset sales and would have regard to the particular position of each institution and, therefore, the mix and measures available will vary between institutions.

(5) agree that discussions will be required at a senior level with the external authorities, with a view to securing agreement to this approach, and in particular that the timing of any recapitalisation would allow for arrangements to be made in this regard. Indicatively at least, some recapitalisation measures may be required to be delayed until June.

(6) agree that the Government will announce its intention to take further measures in relation to the governance of the banking system and will strengthen the role of the banking unit in the Department of Finance and further improve its skill base as appropriate.

(7) accept the request from the European Commission for the Government to affirm its report to the joint restructuring plan for Anglo Irish Bank and Irish Nationwide Building Society submitted to the European Commission at the end of January 2011 in compliance with the commitment contained in the EU-IMF programme for financial support.

(8) noted the Minister's intention to make a statement on Thursday 31 March responding to the PCAR results and announcing his proposals for the restructuring of the domestic banking sector.

(ii) that the deadline for future recapitalisation of the banks to comply with PCAR requirements will be subject to agreement with the Central Bank of Ireland and the external authorities; that Government approval will be sought separately for the injection of State capital into specific banks to meet PCAR requirements; ... (iv) that the EU state aid approval required for the reorganisation of the banking sector will be sought through the submission of restructuring plans for each institution to the European Commission by the end of April; [and] (v) - the Minister's intention to give a preliminary indication to the relevant institutions today of the proposed bank restructuring measures in order for the preparation to commence on a contingency basis of the communication required to the market and to customers.

And it's the Ard-Rúnaí an Rialtais that signs it. Now that Government decision was made on foot of a memorandum I took to Government containing all the elements that underpin those decisions and in the course of the discussion, I would have told the Cabinet the exact amount of senior bonds that were available in Anglo Irish Bank for restructuring. But all the way through ... all the way through, as in my statements during the election campaign, as in the Fine Gael manifesto, as in the programme for Government, bond burning or, you know, discounting of bonds, senior bonds, was conditional on the agreement of the external authorities, especially the ECB, and, of course, we were in a programme at the time with strict supervision from the troika.

Chairman: Back to yourself, Deputy. The clock's back on.

Deputy Joe Higgins: And then can you tell us the conversations that then ensued?

Deputy Michael Noonan: What happened then was that the word got out at Frankfurt that we were thinking of doing this. The statement you read out there I had in my first or in one of the drafts of the speech ... in the draft that I was about to deliver to Dáil Éireann on 31 March. And you'll note it particularly said that I would introduce legislation to achieve the purpose of

bond burning. That was because even though there was nothing in law which prevented it, the advice the previous Government had got from their Attorney General, which was confirmed by the new Attorney General, was that even though there was nothing in the Irish Constitution that prevented bond burning, it would need enabling legislation to allow the Government to do it so that was what that reference was about. So I am preparing to go to the Dáil and I get a call from Mr. Trichet and he asks me what are we doing and I told him that we were recapitalising the banks in accordance with the results of the stress testing that had been done. There had been a commitment made in the programme that the recapitalisation of the banks would have taken place in January but my predecessor, Brian Lenihan, decided to defer it - first of all, to have the results of the stress testing and, secondly, he said if there's to be a change of Government, well, it's really the responsibility of the incoming Government and I'm making no criticism of that. I think that was a moral enough thing to do. So Mr. Trichet would have been aware of the plans because they were involved in discussions at the troika. So what it came down to was how we would arrange things and what the amount would be and then I told him that as part of the programme, we were burning bondholders and he didn't agree. He didn't agree and he asked me was I aware that this would be treated by the markets as a default, which was reasonably strong pressure because I know that after the time you've put in here, you understand the details of all this thing. ELA, emergency liquidity assistance, was underpinning Anglo to the tune of €41 billion at that time. ELA can't be given to a bank that defaults.

Deputy Joe Higgins: So, Mr. Noonan, there was no agreement in that phone call between you and Mr. Trichet then? Did the Taoiseach then speak to-----

Deputy Michael Noonan: I think you'll be interested in the way it went after that. I said well, I was still burning bondholders and it was Government... I had the authority of the Government to do so and he raised the question of the financial services industry in Ireland and particularly in Dublin and he suggested that even though he couldn't say categorically, it might not be possible for people in the financial services in Ireland, particularly in Dublin, to finance themselves on the market if they were situated in a country that was in default. So that was reasonable pressure as well. So I don't think he mentioned the bomb going off until the second telephone call. At that stage... I think at that stage, I said I have to consult with the Taoiseach so the call was discontinued and I informed the Taoiseach of the difficulty of carrying out what was the clear request of the Government but I was exploring the possibility, which was what was in mind. So after some time, I rang him back and I said we were still disposed to burn the bondholders and he said ... he was ... it's hard to know, like... English isn't his vernacular, you know. He sounded irate but-----

(Interruptions).

Deputy Michael Noonan: Mr. Trichet. He sounded irate but maybe he wasn't irate but that's the way he sounded and he said if you do that, a bomb will go off and it won't be here, it'll be in Dublin. I know when he gave his evidence - extramural evidence - here or to the, you know, where... the speech he made, he says he's no-----

Deputy Joe Higgins: That was in the second phone call with you and Mr.-----

Deputy Michael Noonan: I'm not absolutely certain whether it was the first or second phone call.

Deputy Joe Higgins: But to you, not to the Taoiseach?

Deputy Michael Noonan: Oh, it was said to me, yes, and I think it was the second phone call.

Deputy Joe Higgins: And did the Taoiseach also-----

Deputy Michael Noonan: Because there were two phone calls.

Deputy Joe Higgins: Did the Taoiseach also speak-----

Deputy Michael Noonan: I understand the Taoiseach-----

Chairman: Allow Mr. Noonan in - you've plenty of time, Deputy.

Deputy Michael Noonan: I understand the Taoiseach also spoke to him and I mean, the message was the same but I would think I had a more detailed conversation.

Deputy Joe Higgins: Okay.

Deputy Michael Noonan: But I mean there were three issues that were recited to me. First of all, we'd be in default. I knew the implication of that for ELA although he didn't spell that out although he had previously spelled it out in different circumstances to Brian Lenihan back in 2010 because I saw the correspondence. Then he kind of ... he rattled me because I didn't expect it. He drew the Irish financial services sector into it and particularly the IFSC in Dublin and the possibility that they couldn't be funded if they were in a country that had defaulted and then I think the third suggestion about the bomb going off was mainly in the second phone call but I mean it was a fairly strong argument.

Deputy Joe Higgins: Mr. Noonan, you were on the way virtually to Dáil Éireann. Certain Deputies here will remember sitting and waiting for you after 4.30 while this was going on. So after the three phone calls when these threats - economic threats - were made, what did you do then?

Deputy Michael Noonan: I made ... I had some conversations with my key staff and I decided to advise the Taoiseach that the risk was too high for the amount of gain that was involved and I changed my script and did not promise burden-sharing in the Dáil but went ahead with the restructuring of the banks on the basis of two pillar banks.

Deputy Joe Higgins: Was there a meeting of the Economic Management Council?

Deputy Michael Noonan: No, there wasn't time. The Dáil was scheduled ... this was ... I mean the reason I was late for the Dáil was we were re-doing a page of the script. You'll have remembered that I was rather breathless when I got across. To get across to you, I had to run but I would say that it was down-to-the-line stuff, you know but that's the way a lot of the bailout had been. It's very difficult to get decisions from the superiors of the troika and they tend either for reasons of work or for reasons of expediency or for reasons of pressure quite frequently to leave decisions to the last minute.

Deputy Joe Higgins: Mr. Noonan, Deputy Eoghan Murphy questioned Mr. Trichet in Kilmainham in relation to whether he had used the words that an economic bomb will go off and, again, there is a problem with his English. He said first "I will certainly have utilised metaphor of that kind" but then went to say in a second phrase "would have been totally not in line with

the relationship I had with the Government”, which I take it that he denies using that.

Deputy Michael Noonan: Yes, I mean I read accounts of that in the newspapers but the accounts were contradictory. One said quite bluntly that I don’t use metaphors, you know, with those... that kind of imagery or words to that effect and the other one was that he didn’t use the words at all. So I’m not too sure what was said to Deputy Eoghan Murphy but I can assure this committee he said it. He didn’t use the “E” word - economic. He said a bomb will go off, a bomb will go off. He didn’t qualify it.

Deputy Joe Higgins: Okay, and Mr. Noonan-----

Deputy Michael Noonan: By the way, there’s something I came across during the summer which ... it isn’t evidential in nature but it’s a curiosity and you might be interested in the anecdote. Tim Geithner-----

Chairman: We’re on the clock here now, Minister, because you’re on Deputy Higgins’s time, even though he wants to hear the yarn and I do. Stop the clock there.

Deputy Michael Noonan: Tim Geithner was Secretary to the Treasury in the United States, and I met Tim Geithner on several occasions, and he’s often recited as being somebody who was against burden-sharing, and he was, he makes no bones about it. But he has written his autobiography and I read it during August, and the introductory chapter of Tim Geithner’s autobiography is called “The Bombs”, and he describes the bombs as, you know, Bank of America, AIG, Freddie Mac, freddie mae. There’s five of them and he goes ... right through his biography he talks about these bombs going off, you know? So, if Mr. Trichet didn’t use this kind of metaphor, very senior central bankers used this kind of metaphor, because it’s the opening chapter of Tim Trichet’s book. That’s the title. Not Tim Trichet - Tim Geithner, Tim Geithner.

Chairman: Deputy Higgins.

Deputy Joe Higgins: Mr. Noonan, Deputy Murphy further questioned Mr. Trichet and he asked him, “Did you threaten to withdraw ECB assistance to Ireland if we did not repay those bonds?” And Mr. Trichet said, “That has no meaning. That has no meaning”. And the Deputy further asked, “Did you threaten to withdraw European assistance to the Irish national sovereign if we decided to-----”. Mr. Trichet said, “No, certainly not.”

Deputy Michael Noonan: That’s correct. I was never threatened that they’d withdraw ELA or assistance to the Irish sovereign but, and you’d well know from your experience here, in saying that Ireland would be treated as a country in default and a bank would be treated as a bank in default, the implications of that to me were clear. ELA could be suspended. ELA was always temporary. Frankfurt always made decisions every so often to continue ELA. We could never get them, and we tried to get them, to say ELA would be paid on a permanent basis.

Deputy Joe Higgins: Mr. Noonan, you say in your written statement that weighing up the potential savings of €3.7 billion that would accrue essentially if the burning had taken place against “the immediate and devastating impact of withdrawal of European Central Bank support in Ireland, the impact on financial stability, jobs and the daily lives of Irish citizens, the Government took the decision not to make the statement and not to proceed with burden-sharing with senior bondholders”. When did the Government make that decision, Mr. Noonan-----

Deputy Michael Noonan: Well, in-----

Deputy Joe Higgins: -----because there was no-----

Deputy Michael Noonan: -----in the Government decision I was given the authority to proceed on the basis of this, and to burden-share if I got the agreement of the external authorities, and particularly the ECB, so I had been authorised by the Government. So there wasn't a further Government meeting but I rang the Taoiseach and the Taoiseach was in consultation with the Tánaiste, and I think Minister Howlin was brought into the group, and we acted on the authority we had from Government, or that I had from Government, on the previous Tuesday. The Dáil was meeting and we said we can't go ahead with this.

Deputy Joe Higgins: Mr. Noonan, no less than four Government Ministers said to Mr. Leahy for his book that their understanding was, I'll quote one of them:

The understanding was that Noonan would burn them. That's the understanding we had.

And that was corroborated by three other Government Ministers. They didn't think that it was qualified in that way.

Deputy Michael Noonan: I don't know what the understanding of colleagues was, or what colleagues may have said to that eminent journalist, Pat Leahy. And the book is a very good book; I don't deny that. All I can tell you, and I've read it into the record what the Government decision was, and Government decisions are available to all Ministers.

Deputy Joe Higgins: Mr. Noonan, you then came into the Dáil ten minutes later than scheduled. Deputies had been waiting.

Chairman: Can I ask you to wrap up now shortly, Deputy? I'll be bringing you back in again later but-----

Deputy Joe Higgins: Yes. Can I just put the following to you and ask you if you agree or disagree if it's a fair or unfair characterisation? So you, a representative of a Government that is supposed to be sovereign, on your way to report to a Parliament that is supposed to be sovereign about a Government decision to burn bondholders in a failed institution and that, on your way, the president, an unelected financial official of the European Central Bank threatened devastating economic consequences, including a default, and as you said, the most serious economic impactful events if you proceeded to carry out a decision that had been that had been made ... Mr. Noonan, is that not a really serious subversion of democratic rights-----

Chairman: That's a pre-judgement Deputy.

Deputy Joe Higgins: -----by an official of the European Central Bank? And, Mr. Noonan, why did you not immediately report this to the national Parliament, to the Dáil, when you came in?

Deputy Michael Noonan: Well, first of all, the word "threat" was never used either by myself or Mr. Trichet, and it was a conversation which was a reasonable conversation, and from his perspective, he seemed to think he was simply pointing out facts to me.

Deputy Joe Higgins: He used the word "bomb".

Deputy Michael Noonan: Yes, he was pointing out facts as far as he was concerned. So I don't want to exaggerate this, either the tone-----

Deputy Joe Higgins: Mr. Noonan can I just press you-----

Deputy Michael Noonan: No, no, you asked-----

Deputy Joe Higgins: -----for a minute. Chairman, would you-----

Deputy Michael Noonan: -----I want to answer-----

Chairman: I'll bring you back in, Deputy.

Deputy Michael Noonan: -----and I'll do that now because you made an allegation at the end of your question-----

Deputy Joe Higgins: No, I put in a-----

Deputy Michael Noonan: -----and I need to deal with it

Deputy Joe Higgins: I put a suggestion-----

Deputy Michael Noonan: I don't mind how long I stay-----

Chairman: The allegation has been put out, like, and I'm asking members, because we've a long day ahead of us-----

Deputy Michael Noonan: I went to the Dáil-----

Chairman: -----to be measured

Deputy Michael Noonan: What I advised the Taoiseach was that the risk was too high to proceed with bond burning, but that was to proceed at that point. The rest of the Government decision we communicated to the Dáil and proceeded to the recapitalise the banks. There wouldn't have been any problem for the Government the following Tuesday to decide on an alternative course of action, but I wasn't prepared to advise to do it on that day after the conversation with Mr. Trichet. And, you know, it was our business to do what we could, and, certainly, announcing it in Parliament would have been very dramatic but it mightn't have been the most prudent thing to do under the circumstances. On the question of sovereignty, the day that the previous Government took us into the bailout, we had lost a lot of sovereignty anyway.

Deputy Joe Higgins: Mr. Noonan, the ... you say that the ... you weren't threatened, but the Government decision was that you were going to burn, to the tune of some billions bondholders, who had essentially, to use the word scientifically, speculated in a highly speculative bank-----

Deputy Michael Noonan: If I got the agreement of the ECB.

Deputy Joe Higgins: Yes, no, but that ... that was ... but the essential-----

Deputy Michael Noonan: The decision was conditional.

Deputy Joe Higgins: -----but the essential point, Mr. Noonan, was these big bondholders had put in their money, they were unguaranteed, it was a speculative punt by them, and in the world financial market capitalism, if you win, you win, but if you lose, you're supposed to take your losses. So you-----

Chairman: Wrap up now, Deputy.

NEXUS PHASE

Deputy Joe Higgins: -----you were going to impose that principle, and Mr. Trichet told you that that would be considered a default which would have, you suggest correctly, devastating consequences, and that he related in this context the financial services industry, which I know how your Government and the previous Government put so much store on the importance of these institutions-----

Deputy Michael Noonan: Well, there are about 30,000 people working there-----

Deputy Joe Higgins: Yes.

Deputy Michael Noonan: -----Deputy.

Deputy Joe Higgins: Yes, but to threaten ... to ... how can you use any word except “threat-en” economically-----

Deputy Michael Noonan: No, what I am saying is that neither I or Mr. Trichet used the word. I mean, obviously, you can-----

Deputy Joe Higgins: No, I understand that-----

Deputy Michael Noonan: -----you can ... you’re quite free to use it.

Chairman: I know, and I will be bringing you in and I’m being very liberal with your time and I will be liberal when we’re coming to the wrap-up as well, but I’m going to conclude this issue and then bring in Senator O’Keeffe, so Minister Noonan.

Deputy Joe Higgins: Yes, I understand that. I’m concluding. I understand the word wasn’t used, but the word “bombs” was used-----

Deputy Michael Noonan: Oh yes-----

Deputy Joe Higgins: -----which does imply a threat, I would suggest.

Deputy Michael Noonan: -----”bomb”. The word “economic” wasn’t used.

Deputy Joe Higgins: Yes.

Deputy Michael Noonan: And it was “bomb” singular not plural.

Deputy Joe Higgins: Yes, so that ... even more sinister, because you can take whatever you like out of it, I would suggest. But I know the word “threat” wasn’t used, Mr. Noonan, but, you know, words have meanings and meanings have ... conjure up a reality that can follow those words.

Deputy Michael Noonan: But, I mean, my policy position has been quite clear. I still think the correct ... the better decision would have been if I was allowed to burn the senior bondholders, and I continued in Europe pursuing that line, and during the Irish Presidency, we got to a point where there’s new resolution legislation now, which is pan-European, and the mandate now is not to bail out insolvent banks, it’s to bail-in using the assets, and there’s a cascade of what you bail-in, including senior bondholders of different categories. So, like, we won the argument at the end, but we won it in circumstances where we hope we don’t have to use the benefit of it ever again.

Chairman: Okay.

Deputy Joe Higgins: I'll have to leave the last word with you for the moment, Minister.

Chairman: We'll bring you back in at the end, Deputy Higgins. It's like the wedding feast at Cana - we'll be looking forward to it. Senator O'Keeffe, please.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Noonan, if I might just ask for a couple of clarifications. Am I correct in understanding that Mr. Trichet hadn't been notified about your intent but that he learned of it or his officials learned of it and told him? Is that correct?

Deputy Michael Noonan: The troika would've been made aware that we were going to recapitalise the banks and they'd have had a very good idea of the nature of the recapitalisation we had in mind. They wouldn't have been specifically told that as part of that, we intended burden-sharing for senior bondholders, but we did go on of course subsequently and we brought burden-sharing in for subordinate bondholders - junior bondholders - and we took over €5 billion out of that. The late Brian Lenihan had done operations ... legal operations previously, so I think the total discounting from junior bondholders over the period was about €15 billion. So it's not true to say that bondholders weren't discounted in the bail-in. Junior bondholders were very heavily discounted. Senior bondholders weren't, for the reasons I have given you.

Senator Susan O'Keeffe: When that conversation took place with Mr. Trichet, how long had you been the Minister?

Deputy Michael Noonan: I came in I think on 9 March.

Senator Susan O'Keeffe: This was-----

Deputy Michael Noonan: It was important to ... it was important to recapitalise the banks quickly, and I had consulted with the Irish Central Bank, with my own officials and with the NTMA and we decided to go ahead on 31 March and as part of that to discount or burden-share with senior bondholders.

Senator Susan O'Keeffe: So do you believe that that conversation which took place there-fore only three weeks after you became Minister ... do you ... how, if at all, did that conversation with Mr. Trichet influence your relationship with him as it went on? Because obviously his language was strong, from what you've said, and you did back down.

Deputy Michael Noonan: Yes, I mean I thought the risk was too high and I advised the Government not to take the risk. The risk was too high for the gain, but I mean, you have to make decisions like that. The nature of being a Minister is making decisions every day-----

Senator Susan O'Keeffe: But how did that influence-----

Deputy Michael Noonan: -----and you have to give advice and sometimes you have to decide fairly quickly. He is ... I mean, you have met him at the hearing where he reported to you. He is a very polite gentleman and he continues to be a very polite gentleman and our relationship was businesslike. And I got some concessions after him subsequently, but I would think that for programme countries and for the times we were in and for the big European crisis, Mr. Draghi had a subtlety attached to him that was more fitted for finding solutions than Mr. Trichet.

Senator Susan O'Keeffe: When you came into office, obviously you were able to see any documents that you wanted to see, I'm sure. I'm just wondering whether or not you had the opportunity or the need at any time to find out whether there was any correspondence from Mr. Trichet around the time of the guarantee, because we've been unable to get clarity as to what

happened at that time. You made a reference earlier on as to some documentation, but it wasn't that, and I'm just wondering whether or not you had any opportunity to clarify that.

Deputy Michael Noonan: I have been a Minister under ... in three Administrations under different Taoisigh and I have a practice never to go back into the affairs of my predecessors. I don't believe in that, but if my officials decided that I needed to know, they would tell me, and I saw one letter from Mr. Trichet to Brian Lenihan and it was around the possibility that ELA would be discontinued if Ireland didn't go into a programme, but I think you have access to that material already. But I haven't seen anything around the guarantee and I don't know of any correspondence that was around the guarantee. I wasn't Fine Gael spokesman the time of the guarantee - I was a backbencher - but I did take part in the debate in the Dáil and I inquired to know whether it was a liquidity crisis or a solvency crisis. Apart from the Act having sections in it it looked to me sections drafted to remediate solvency rather than liquidity, I also felt that - and I subsequently confirmed in my reading - that if you have a liquidity problem in a bank where money is moving out, a guarantee can solve that, but if you have a solvency problem you have to recapitalise. So I voted for the guarantee on the night. I thought it was too wide, and I said in our own party that the scope of it was too wide and it was exposing us too widely. But I think that ... I regret that I didn't follow up on my question. I was assured it was only a liquidity crisis on the night by the Minister, but solvency would have required an injection of capital. And it might have been possible to stay out of the bailout if the guarantee was accompanied by a restructuring and a recapitalisation of the banks, but then it might have been a dearer bailout because money on the markets might have been more expensive if we had stayed in the markets than money that we accessed subsequently from the European funds and the IMF, particularly when the reductions in interest rates took out the bit they had put in for reasons of moral hazard. And they were giving us money more or less ... slight margin above the cost of money. So that's my take on the guarantee, but I don't know of any correspondence or anything that went on between the authorities at that stage, and I didn't seek to know of it. You know, Kevin Cardiff gave you very strong evidence and he was there at the time, so-----

Senator Susan O'Keeffe: When you became Minister, and obviously as you've said you'd already been the finance spokesperson for a while when you became the Minister, what did you find when you went in? Was it considerably different to what you were able to understand from being the spokesperson relying on the media - relying on what you were being given, if you like - or was it pretty much as you anticipated when you sat down for the first day as Minister for Finance? Or was it much worse or was it much better or-----

Deputy Michael Noonan: Usually, somebody goes into a Government Department after spending a long time as the relevant spokesperson or as spokesperson in another area, but for personal reasons I hadn't been in the front line of politics for a number of years. So I came back in as spokesman on finance in the summer of 2010. So I wouldn't have ... if, you know ... the point I'm trying to get across is: if I had been spokesman on finance during kind of normal years before the crisis occurred, I'm sure I'd have got to know a lot of the finance officials because that would be normal relationship, you know, as people like Deputy McGrath would know some of the senior officials over now, and Deputy Doherty, but I actually knew very few of them. I hardly knew them at all. So I found they were grand.

Senator Susan O'Keeffe: No, I think perhaps I should qualify, Mr. Noonan. In terms of the level of the crisis ... because, you know, you can rely as a spokesperson and as a member of the public on what you're hearing and what you read and what you see on the television. Now you're the Minister with all the documents, with all the officials, with all the information. Did

the crisis seem more serious, much more serious or pretty much as you had understood it as the spokesperson?

Chairman: Ultimately-----

Senator Susan O’Keeffe: Was there a gap of information?

Chairman: -----when you opened the books, were they-----

Deputy Michael Noonan: No, you see-----

Chairman: How did they look?

Deputy Michael Noonan: The kind of ... I do not know whether you remember back the autumn of 2010 and the January of 2011, but it was a bit chaotic. And I’m not in the business now of criticising the previous Government, I’m not going down that road, but it was a bit chaotic. Once the troika came in and a programme was agreed, there was a new blueprint. So like going back was irrelevant because the programme was an absolute game-changer.

Senator Susan O’Keeffe: Okay.

Deputy Michael Noonan: Now there was ... we had ... in opposition we had been briefed by the troika because they didn’t ... obviously, they didn’t brief us fully because they were negotiating with the Government, but they briefed the Opposition. So I had got a lot of briefing in December, before the programme was announced, on what would be in the programme. And we committed to renegotiating it. There were things ... there was elements of it in it I didn’t like, but I thought the main thrust of it was that there was an over-reliance on increases in taxation, particularly personal taxation and I thought the balance was wrong. I thought the correction period was too short, so we renegotiated an extra year. And then there was things like the minimum wage, which ... you know, they were kind of stand-alone items-----

Senator Susan O’Keeffe: Sure.

Deputy Michael Noonan: -----but they weren’t crucial to the whole thing. So, like, when I went into the Department - to get back to your initial question - the issue was: how much of this programme can we renegotiate? And the previous Government had brought in a budget which was the first major step in the correction process. And, like, I’m not saying ‘tis easy to announce a budget, but announcing a budget is only part of the budgetary process. Implementing it across all Government Departments, making sure expenditure ceilings are held to and everything ... all the details are done. So it was ... that was the agenda.

Senator Susan O’Keeffe: Okay.

Deputy Michael Noonan: And, you know, get the show on the road, recapitalise the banks, renegotiate with the troika - if we could - and then implement the budget that our predecessors had ... had announced and started to implement in the month of January.

Senator Susan O’Keeffe: What advantages do you think have been gained from restructuring the Financial Regulator and the Central Bank into a single regulatory authority? And has there been any review since the changes were made of how it’s running and how it’s doing?

Deputy Michael Noonan: I think it’s functioning. It’s functioning ... I think it’s functioning quite well now. I mean, again, it appeared ... it appeared, after the crisis really struck, that

the previous arrangement didn't function very well. But there are other models where you have a separate regulator, like in London, where the model does function. So, I'm not too sure what-----

Senator Susan O'Keeffe: Has there been a review yet of any of the activity or is it too soon?

Deputy Michael Noonan: No, the Central Bank is independent and it reports to the Central Bank commission, which is another name for the board of the Central Bank.

Senator Susan O'Keeffe: So it would have to require a review.

Deputy Michael Noonan: You know, we get the quarterly reports and the annual reports. But I'd have full confidence in the work of the Central Bank and in the work of Patrick Honohan and I think it has proved to be a very good regulator. So I'd be happy with the amalgamation of the two functions, which were always there in the '90s but which were separated sometime in the early noughties.

Senator Susan O'Keeffe: When you were being interviewed for the Wright report in 2010, I understand that you criticised the pro-cyclical budgets of former Governments. Do you believe now that sufficient controls are in place to ensure that the domestic budgetary rules and the EU Stability and Growth Pact will be strictly adhered to in future?

Deputy Michael Noonan: Well, I suppose, there is always a human factor and it depends who the Minister is and who the Government are, but in terms of the legal position, yes. And the legal position is straightforward now. And it would be wrong to think that it's fiscal rules that are European fiscal rules imposed on Ireland and that we wouldn't obey them if we thought we'd get away with it. I mean, we took ownership of the rules when we put the referendum through. And I argued for the rules in the negotiations in Brussels and I'd be very strongly committed. We ... there are a lot of rules there but to latch on to the point you made about counter-cyclical economic policy, that's certainly built into the rules now. There may be refinements in them as, you know, practice plays out but I think they're very good and I think they're a major bulwark against we getting back into a crisis situation again. But the other bulwark of course is not to rely on one sector of the economy - relying on just building and development and using that for your transactional taxes. If you look at the last jobs figures, 12 sectors in Ireland have put on jobs. I think CSO divides the economy into 14 and the two that didn't put on jobs were the public sector, where it's the policy anyway to keep jobs growth down, you know.

Senator Susan O'Keeffe: How are the views of the Irish Fiscal Advisory Council fed into the budgetary process?

Deputy Michael Noonan: They have a difficult role, first of all, under law. They were brought in informally first and now there's legislation that underpins their role. But ... you could go into great detail defining their role.

Senator Susan O'Keeffe: I'm not asking that.

Deputy Michael Noonan: -----but they're really there to give a contrary view-----

Senator Susan O'Keeffe: Okay.

Deputy Michael Noonan: -----so that if I come in and I tell you what I'm doing in the budget, there's another reliable institution that can give you a different assessment.

Senator Susan O’Keeffe: But is it a view, Minister, or advice or ... or an assessment? How would you-----

Deputy Michael Noonan: Well, I mean-----

Senator Susan O’Keeffe: Is it something to be disregarded?

Deputy Michael Noonan: They have some legal powers that are mandatory and, I suppose, the key one is that when we’re doing forecasts for 2016 on which we base the budget, they have to be endorsed by the Fiscal Advisory Council. And if the Fiscal Advisory Council don’t ... don’t endorse them, I can’t use them for the base for a budget. Now, there’s a good relationship between forecasters in Finance and them. And John ... Dr. John McHale has complimented the economic section on their forecast. But they must endorse the forecast, otherwise I can’t build the budget on the forecast that Finance produces. Now, that’s an extremely strong power ... an extremely strong power and it’s mandatory.

The advice is persuasive and, obviously, no Minister wants to be at variance with the advice of the Fiscal Advisory Council to a great ... to a large extent. But, when you remember that part of their mandate is to give a contrarian view ... because Wright and various other people said one of the problems in Ireland was that contrarian views weren’t entertained, once that’s their mandate, it seems to be that most of the time when they do a studied ... a study of Irish fiscal policy that’s promoted by the Minister, they won’t agree with it. So it depends on how they present it.

Senator Susan O’Keeffe: What-----

Deputy Michael Noonan: But I think they do a very good job, now. I’m not ... I disagree with them at times but I am not critical of them. I think they’re doing their job and they’re doing it well.

Senator Susan O’Keeffe: What measures have you put in place to ensure that cyclical revenues are not being used to meet ongoing expenses?

Deputy Michael Noonan: Well, first of all, it’s part of the budgetary process. And, you know, again, going back to the fiscal rules, when we balance the budget in two years’ time or maybe sooner, then there’s a discretion across the business cycle on the structural deficit to go plus or minus half a per cent. So that’s the basic rule and, you know, I intend to adhere to that.

On ... yes, one has to make an assessment then, but budgets now have to be submitted to the European Commission and they examine them to see are there incidental windfall sources of revenue which are being built into the base when they can only be used once and they’ll object very strongly to that. And they have done it with other countries, so we don’t do that. The Central Bank keeps an eye on it as well. There were significant capital gains last year on the sale of Government paper that underpinned the promissory note and Patrick wrote to me saying, “This has to come off the debt. You can’t use this for budgetary purposes.” So we took - whatever it was - €400 million off the debt.

So there are a number of procedures now which are built into the system. So it’s not easy anymore to use transactional ... or sorry, incidental windfall stuff for budgetary purposes. You can use it obviously in the one year. You know, if you’d a project, you could use it within the year, but something that goes into the base for subsequent years, you wouldn’t use it.

Senator Susan O’Keeffe: I know that you’ve committed to Deputy Higgins that you’ll provide the detail of the €12.7 billion that came from related levies and bank ... dispositive investments and so on. But can I just whether or not that money went to the Exchequer or to the bank’s balance sheets?

Deputy Michael Noonan: It went to the Exchequer.

Senator Susan O’Keeffe: Okay. You’ve talked a little----

Deputy Michael Noonan: It would be non-revenue income under the tables ... on the budgetary tables.

Senator Susan O’Keeffe: You’ve talked a little bit in your statement about the banks and the restructuring of the banks. So how would you describe the attitude of banks now, in the post-crisis era, and do you think enough has been done to share the burden with mortgage holders?

Deputy Michael Noonan: Well, first of all, bank directors now have to pass a probity test. Again - this is a ballpark figure now but I won’t be very far out - I think there was 75 or 76 directors across the banks and I think there’s only one survivor. So, you know, there was no reappointment of the directors of banks that were there at the time - not because there was a test of the culpability but it was because certain things happened on their watch. So, you know, that’s the first change that has taken place. So there are new teams in, both in terms of directors and senior management, and they tend to be the next generation bankers.

Now, how were the banks after the crisis? I would think there was very low morale among staff in general because they were ... they felt they were being scapegoated and ... even socially, they felt they were being scapegoated. But, I suppose, that’s not surprising either. But they’re working their way through it now. I wouldn’t think the job is finished yet, no more than any of the other jobs on the recovery, you know.

Senator Susan O’Keeffe: Has enough been done for people with mortgages? Has that part of the equation ... I mean, we can always say there’s not enough but, really, has there been enough?

Deputy Michael Noonan: It’s work in progress, yes, and I think it has ... I think we’re at a point now where we can see that the majority of difficulties will be resolved, and of course, as the economy grows people go back to work, and again they have the ability to service their mortgages. But it’s something we get monthly reports on and we continue to scrutinise.

But I’d be loath to say, “Enough has been done”, and there may be new things we’d have to do. Like, before the summer, there was new measures taken again along ... around the insolvency legislation where the Minister for Justice brought in amendments.

Senator Susan O’Keeffe: When Mr. Buti ... In Mr. Buti’s statement in evidence, he said, “After the completion of the programme in December 2013 the current minister for finance indicated in public that the Troika had not imposed one single measure on Ireland.”

Deputy Michael Noonan: I don’t recall doing that but if I said that, the context would have been that one of the advantages we had in managing the programme was total buy-in and I was constantly saying to Cabinet Ministers if they had to do things under the programme, you know, “Buy in and take ownership of it.” So ... in taking ownership of it, we didn’t regard it as im-

sitions. Another way of putting it was, if there was never a programme or never a troika, what we did was necessary for the Irish economy even if we had full sovereignty and everything was a domestic decision.

Senator Susan O’Keeffe: When Mr. Chopra was giving evidence, he, at the end, said that ... he described the IMF’s role in the troika as “a junior partner”. How ... what was your view of that? Would you share that view?

Deputy Michael Noonan: I wouldn’t, no. The troika, across the table from me, and they were over every three months for three years, they were all equal partners. Sometimes, like, the ECB specialised in banking issues and funding issues whereas the Commission had an over-reach and the IMF were more in the same space as the Commission with a view on most issues. Unless he’s talking about the relationships when they were discussing things privately among themselves, but, certainly, in discussing with Ministers and civil servants, they didn’t give the impression of being junior partners.

And in Brussels, then, where the review of programmes took place at the Eurogroup meetings, the IMF were always present, and during our period, Christine Lagarde was representing IMF. I would never her describe her as anybody’s junior partner.

Senator Susan O’Keeffe: Okay. The principals group replaced or superseded the domestic standing group. Do you think that the principals group is an effective structure for co-ordinating communication and actions? And would you describe the reporting relationship between that group and you, in the Minister ... you know, is it ... how does it work?

Deputy Michael Noonan: Well, they meet regularly and they discuss, you know, all the banking issues - Central Bank, Finance and NTMA. And they report to me as a matter of routine but if there’s any particular problem, they report to me, you know, more than in a routine manner so, yes, I think it works.

Senator Susan O’Keeffe: Do they meet on a regular basis or on an *ad hoc* basis?

Deputy Michael Noonan: I think it’s monthly but there’s a regular flow of information, if that’s the point you’re getting at.

Senator Susan O’Keeffe: The Economic Management Council ... there has obviously been criticism of it as being an effective cabinet, or a cabinet without Cabinet or however you want to describe it. It didn’t exist in the previous Government. Is it something that is here as a temporary measure because of the state we found ourselves in or is it a permanent fixture now, do you believe? And what is your view of the Economic Management Council? What do you say about its effectiveness?

Deputy Michael Noonan: Whether it’s temporary or permanent is a matter for the Taoiseach and whoever the next Taoiseach is. It’s a ... it’s really ... there is a lot of, in my view, exaggeration about its role, and the criticism of it I don’t agree with. It’s effectively another Cabinet sub-committee, and it was a Cabinet sub-committee designed and put in place to deal on a weekly basis with the programme. I mean, by the end of the programme, we had implemented 290 separate and distinct measures and you needed some way of processing that level of intervention across Government Departments in co-ordinating it, and that’s what the EMC did. But it had no authority, no more than any Cabinet committee, to make decisions on behalf of the Cabinet and decisions had to be taken back to Cabinet, if it required a Cabinet decision.

Senator Susan O’Keeffe: So why didn’t it lapse-----

Chairman: I will bring you back in again now, Senator.

Senator Susan O’Keeffe: Why didn’t it lapse when the troika left? That’s the last.

Deputy Michael Noonan: It hasn’t lapsed because it continues to fulfil a useful function but it’s not as central to Government business as it was when we were conducting our programme.

Senator Susan O’Keeffe: Thank you.

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

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an Aire chuig an choiste. Minister, given the deficiencies highlighted in the Wright report, do you believe that the Department of Finance now has the skill sets and expertise to produce reliable economic forecasting and relevant and timely advice on important matters?

Deputy Michael Noonan: Well, the Wright report criticism, as I recall it, was focused principally on the fact that, in comparison to comparable treasuries, it didn’t have a large number of people that were qualified in economics. I think that was the ... one of the drivers there. And since the previous assistant secretary, and continued with the present assistant secretary, there has been a huge intake of people with economic qualifications and there’s a large number of people now who have a masters in economics.

Deputy Pearse Doherty: So how do you believe ... how do you view the advice and analysis that you are receiving from your Department, ranking it against the ... your European peers? And what’s your assessment of the capacity to evaluate policy alternatives and risks internally without the need to engage external consultants now?

Deputy Michael Noonan: Well, I would think that the evaluation is quite good but the nature of the Irish civil servants ... Civil Service is that it’s generalist and if you had to gear-up and have specialists for every eventuality, you’d have a lot of specialists who wouldn’t be doing anything for a lot of the year who would be waiting for the specialist event to occur. So, if something requires specialisation, it has been the practice for a long time to engage consultants, and it probably ... it’s probably more cost effective. But that’s not to say that the generalists at senior level don’t have a lot of technical competence but there are times when you need either expert legal advice about areas or expert economic analysis about areas, and, you know, the Department goes for that.

Deputy Pearse Doherty: Let’s take the conversation you had with Deputy Higgins in terms of your conversation with Mr. Trichet where he pointed out, as you say, you were taken aback or you were stunned a wee bit at this, which was his reference to the Irish financial service centre and not being able to get funding.

Deputy Michael Noonan: I was-----

Deputy Pearse Doherty: Can I just finish, sorry?

Deputy Michael Noonan: I was surprised because I hadn’t-----

Deputy Pearse Doherty: Sorry, I need to ask the question.

Chairman: I will just allow Deputy Doherty finish and then I will bring you in, Minister, okay.

Deputy Pearse Doherty: I need to ask the question. In relation to what Mr. Trichet said in relation to the Irish financial service centre, was there advice provided to the ... by the Department to you for the Government decision that covered this area or not?

Deputy Michael Noonan: I ... I ... there is ... what I said was ... to Deputy Higgins was I was surprised because it was unexpected. I had been figuring out how the conversation might go. I knew it was going to be a difficult conversation and the mention of the Irish financial services was unexpected. I did ... I hadn't reckoned that this would be mentioned, you know. I hadn't included it in the Government memorandum. When the decision, which I read in reply to Deputy Higgins's question, ... the Government decision was read out, no, I hadn't included it.

Deputy Pearse Doherty: Was there advice given on that?

Deputy Michael Noonan: I don't think so because if there was-----

Deputy Pearse Doherty: Was he ... was Mr. Trichet right?

Deputy Michael Noonan: If there was, it would have been in the ... it would have been in a memorandum if the advice was given. It would be an important-----

Deputy Pearse Doherty: Did you seek advice afterwards?

Deputy Michael Noonan: I discussed it later on.

Deputy Pearse Doherty: And was he ... was this-----

Deputy Michael Noonan: Well, I mean, they said, "You never know but if you default, there has ... there are unforeseen consequences which ...". I mean, I didn't need advice to tell me that. Once he mentioned it, I said, "You know, if you're trying to put pressure on me, you have come up with a good one", you know.

Deputy Pearse Doherty: Okay. In relation to ... Can you just outline ... you talked about the two phone calls that you've had with Mr. Trichet during that period - during that day it was. What other engagements did you have with Mr. Trichet in relation to the burning of bondholders, before or after?

Deputy Michael Noonan: Well, that was my first engagement with him on the burning of bondholders because, as was pointed out earlier, I took up office on 9 March and this was 31 March, so it wasn't a long lead-in time. I knew who he was but I hadn't met him previously. I think there was a meeting in Brussels where I would have met him.

Chairman: Can I just step in for a second because there is a bit of mobile phone interference there? As I say, it doesn't necessarily mean it's the member, it could be anybody in proximity to them so could they please get them off, please. Minister Noonan.

Deputy Michael Noonan: I met him subsequently on several occasions, I had different agendas to run. I was trying to get him to move on the promissory note. I was trying to get him to agree to increasing maturities on the official lending. I was trying to get him to take out the moral hazard imposition that put a premium on-----

Deputy Pearse Doherty: Specifically on the burning of bondholders, unguaranteed bondholders.

Deputy Michael Noonan: No, I didn't revisit it after that.

Deputy Pearse Doherty: Okay. So six weeks after you got this phone call from Trichet, which altered your speech to the Parliament, you announced on RTE in Washington that you were going ... the Government was going to pursue the burning of bondholders in Anglo Irish Bank and Irish Nationwide, with the consent of the ECB. You're just after telling us that you didn't discuss with Trichet after that point, and you already knew at that stage that Trichet told you that a bomb would go off in Dublin if you pursued this angle. So why did you make that statement, Minister?

Deputy Michael Noonan: Because I was ... now had moved my negotiation on to changing the promissory note, and as part of the promissory note the bondholder issue was still in there. I hadn't conceded ... I never agreed with Trichet. I never agreed with Trichet. I never told Trichet we wouldn't go ahead. What we did was I made a statement in the Dáil and that was that we weren't including it in what was announced to the Dáil that day, and then the promissory note discussions were very intricate and took a long time to get a result.

Deputy Pearse Doherty: Yes but that's not the question I'm asking about the promissory note at all at all. I'm asking you about your public statement, which was I think in Washington and you did an interview with RTE and all of this is on the record, where you talked about that the banks are no longer normal entities and more like warehouses, in that context you would be going to Ireland's European partners to propose significant cuts in the money to be paid to the bondholders, yet you didn't have any conversations about burning bondholders with Mr. Trichet after this event and you knew Mr. Trichet's position prior to this, six weeks earlier.

Deputy Michael Noonan: No. The conversations I had with the Commission and with the ECB and with the IMF after that was that we could not continue paying €3.1 billion every March to service a promissory note arrangement-----

Deputy Pearse Doherty: I am not talking about ... with respect, I'm talking about bondholders.

Deputy Michael Noonan: -----and that we needed it restructured, and that as part of the restructuring the issue of senior bondholders would have to be revisited.

Deputy Pearse Doherty: Can I ask you in relation to testimony that we've had from Mike Aynsley at the inquiry here, and this is in relation to your Department and yourself? He said in evidence to the committee:

I was shocked in January 2013 when I received an email memorandum from one of my direct reports at the bank who had a detailed discussion on recovery activities with a DoF official. [...] The email details the DoF official stating as part of a discussion that a major asset sale transaction should not have been completed simply because the buyer was a named Irish businessperson or his company. The Bank Executive then moved the conversation to the possible sale of another major business asset, and asked the DoF official whether he would be in agreement with a certain price and the sale process from the same Irish businessperson or his company or alternatively €100 million less from another party. The response from the DoF official was that the lower price would be preferable and that he believed that the Minister for Finance would also be supportive of that position.

Can I ask you a number of questions from that first of all? Are you aware that the Department of Finance was suggesting to IBRC to sell assets to individuals substantially below the valuation because of a sensitive, named Irish business person or his company and that the view was being expressed that you supported it? And can I ask you did you ever have any conversation in relation to a named Irish business person or his company in relation to the purchase of assets from IBRC and your opinions on that?

Chairman: Can I just make an intervention before Minister Noonan answers, and I will be asking him to answer the question, but I would also in doing so ask him not to drift into areas that may be in conflict with the commission of inquiry that is also dealing with related matters. Minister Noonan.

Deputy Michael Noonan: Yes, I read the comments made by Mr. Aynsley in the newspapers. I didn't know what he was talking about. It sounded like dúirt bean liom go ndúirt bean léi to me.

Chairman: I just got a legal opinion on that. That's okay. Go ahead.

Deputy Michael Noonan: I mean as I read it, it was that an official had a ... produced a minute of a conversation he had with an official in Finance who related to him that he had a view about something and that the Minister would support this view. I mean I have no idea what the basis for that was. But certainly my view was that assets should have been sold all the way across the banking system for the highest price, once proper procedure was followed and that the primary interest was to make maximum recovery for the Irish taxpayer.

Deputy Pearse Doherty: Minister, we have a very serious job to do in this committee and it's always in the last session, in the last public session it's maybe good to crack the odd joke or all that but €100 million isn't something-----

Deputy Michael Noonan: You started as Gaeilge so I thought I'd complement it by having something as Gaeilge myself.

Deputy Pearse Doherty: No, no, with respect, if you again let me finish my question. The e-mail correspondence from an official within IBRC to Mike Aynsley documents a conversation with a Department of Finance official. I would suggest to you that this is a bit more than dúirt bean liom go ndúirt bean léi. It talks about €100 million of an asset to be sold by IBRC for a value of less than €100 million and suggests that this would be the type of view that you would have as Minister for Finance. Even if it's not your view, do you believe it's appropriate for the Department of Finance official to influence in any way the sale of assets of IBRC and particularly to suggest that assets should be sold at a value substantially less than what they're valued at because of the political sensitivity of an individual which may be looking to purchase the asset?

Deputy Michael Noonan: I don't agree with the evidence that was given but I have never seen this e-mail or nobody has given me a copy of the e-mail and I don't know what basis there is for it. But there's a commission of inquiry to examine all these issues and let the commission of inquiry deal with it.

Chairman: Thank you, Deputy, and then I'm going to-----

Deputy Michael Noonan: I'm afraid I can't help you on this.

Chairman: I'm going to try and take one question and then go for a break.

Deputy Michael Noonan: It has nothing to do with me, I can assure you of that.

Deputy Pearse Doherty: Okay. Finally, and I understand the e-mails will be given to the committee and I'm sure we can look into the individuals then at that stage, or whoever needs to see them. In terms of what has been reported in the *Irish Independent*, I believe, earlier this year, in relation to Governor Honohan's view of subordinated bondholders in the liquidated IBRC, can I ask you did you take ... did you note Governor Honohan's view that bondholders ... subordinated bondholders should not be paid, that the State should enlist legal views, and suggested a legal individual, somebody who already had provided advice to the State under the previous Government, to bring this about? Did you follow up on the views of the Governor of the Central Bank that the subordinated bondholders in Anglo Irish Bank or IBRC at the end of the liquidation wouldn't be receiving what many believe should be taxpayers' money being paid back to them?

Deputy Michael Noonan: This is the issue that when every secured creditor is repaid by the liquidators the residue will go to the unsecured creditors. And there is a hierarchy of unsecured creditors with subordinate bondholders towards the end of the line and if the surplus is sufficiently large some subordinate bondholders may benefit from the proceeds of the liquidation. Under law, as it stands at the moment, that is the position but it hasn't come to the point yet where this arises as an imminent threat and we're still considering in the Department how we will deal with this issue and we're still considering, and I'm aware of Governor Honohan's advice and I have spoken to him about it, and we'll take his advice into account, but I have to act in accordance with law and I'm exploring the possibility of not paying them in accordance with law. But if, in accordance with law, I have to pay them then I won't be doing it but the liquidator has to act legally as well. So it's still an open question.

Deputy Pearse Doherty: Okay, go raibh maith agat.

Chairman: Thank you, Deputy. I just want to deal with one question and then I'm going to propose that we take just a short break.

Minister Noonan, the former Attorney General, Paul Gallagher, described Ireland as "isolated" on the night of the guarantee and the time of the ... and this would imply that the nation was very much on its own, that there wasn't a friend in Europe, either in a national parliament or at a broader institutional level, and that Ireland was very much there in an isolated position. At the time of taking office, can you describe your perception of the nature and effectiveness of Ireland's relationship at a European level and, in particular, with the ECB and, further to that, what actions, if any, have been taken to strengthen or maintain Ireland's relationship within Europe and how active is our diplomatic engagement with European institutions today?

Deputy Michael Noonan: I don't know what the situation was around the time of the guarantee because that was long before I took up office but I know, from my subsequent interaction in Europe, that many Ministers in Europe and many treasuries in Europe and many bank governors in Europe were upset about the fact that Ireland introduced a blanket guarantee unilaterally. So there was relationships to be repaired, there's no doubt about that. I mean, even in the UK, the first effect of the guarantee was that funds began to flow from the UK banks into the Irish banks and that began to put pressure on the UK so, you know, there was concern.

What did we do? I should also say, I think, that my predecessor ... Brian Lenihan's repu-

tation was very high in European circles and he was held in high regard so I was building on that and spending a lot of time talking to people. You know, the formal part of the meeting in Brussels works on a fairly tight agenda but the real business is done *en marge* and building up the relationships *en marge* was very important. And I think the Taoiseach followed the same line and Ministers were instructed to attend all meetings that they were required to attend and to rebuild relationships which seem to have been damaged.

Chairman: Okay, thank you very much, Mr. Noonan. With that said, I propose that we just take just a bit of an interval and that we resume at 6 o'clock with the Angelus bell. Is that agreed? Agreed. Thank you.

Sitting suspended at 5.50 p.m. until 6.10 p.m.

Chairman: In returning, if I now propose that we go back into public session. Is that agreed? Agreed.

Now, if I can just deal with one more item myself and then I'll invite in Deputy John Paul Phelan. Minister, in the ... this is contained in the core documents. It relates to the *ex post* evaluation of the economic adjustment programme, but the general tenor of the question is as follows: that in the European Commission's *ex post* evaluation of Ireland's bailout programme of 2010 to 2013, it was stated that while "The burden of fiscal adjustment was shared quite widely, ...overall [it was] the younger generations [who] were hit harder by the crisis." Maybe you could comment or give further explanation as to whether you agree with that assessment and maybe offer your own view as to any significant differences in the impact between those on social welfare income and those on earned income during that period.

Deputy Michael Noonan: Well, on the, whether it was the young or the old or everybody, I mean everybody suffered. That's the first thing. This was an absolute catastrophe. And there have been about 80 financial crises across the world since 1975. And, there's no popular way or pleasant way of dealing with them. And as always, there's always pain and suffering, and universally in Ireland, people suffered. Did the young suffer more? Well, young male workers in the building industry where there was 250,000 employed, that went down to under 100,000 and it's going back up now rapidly again, but yes, there was a whole tranche of young male workers lost their jobs. And then they, and many of their contemporaries, were forced to emigrate because in the early stages of the crisis jobs were, were, jobs were being lost rather jobs being created. The job creation didn't really recommence until 2012. So on the basis of unemployment and emigration, I'd agree with the statement.

On people on earned income and people on welfare, there was a commitment given by the Government coming into office for our period of the recovery, but of course the crisis was going on for some time before we came in in 2011. But if you take it, during the years where the programme under the troika was operational, basic rates of social welfare weren't cut, but other rates were cut and, again, for the young, there were adjustments downward on social welfare payments for persons in their 20s, and you could add that on to the previous remarks. For people on earned income, there was mandatory pay reductions. You, you'd know yourself the level but they ranged, depending on Civil Service grade or public service grade from 15% to 20% and there's only just a commencement of restoration of that now. And as well as that, the universal social charge was brought in by the previous Government and you know people paid a lot more taxes on personal income, and then their personal income went down as well.

Now in the private sector it's not as clear because the data wouldn't be as easily, wouldn't be

as easily put together as in the public sector but there would be a strong view that many private sector companies cut wages, and they certainly abolished overtime or reduced overtime. So again, private sector workers - earned income workers - would have had a very heavy penalty. There was a bit of a crossover then. You'll recall that young teachers, for example, were put on a lower starting salary than teachers who had been in the job, and much lower than their predecessors. So I suppose that reinforces the opinion that in certain professions young people were targeted more than middle-aged people with families.

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

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, or good evening, Minister. Firstly, can I turn to the matter touched on by Deputy Doherty in relation to Mr. Aynsley's evidence. I'm dealing in general terms. There's a couple of quotes that I want to put to you. He alleged in his evidence that there was interference in certain transactions in relation to certain clients within IBRC. One of the, the first quote is:

There were times where specific client names were mentioned, and I can think of one in particular where the specific name was mentioned as one that the Minister would not really like to have to stand up and defend in public. There are a couple of these ... in fact, there was more than one of those.

Were you aware before he gave evidence here that, you know, there was allegedly people within the Department of Finance who were making these representations on your behalf to IBRC?

Deputy Michael Noonan: But you see, that question, if I say yes or no suggests that there were people making representations on my behalf. You know, I don't believe there were. So I don't know what the basis of it is, and I can't inquire because if I inquire I'm contravening the inquiry that is now put in place under Judge Cregan. I can't go around the Department asking officials "Were you the person referred to by Mike Aynsley?" because if I do that ... so I'm in a position where I don't know what the basis of that was. As presented by Mr. Aynsley, it was an e-mail from somebody who was an employee of IBRC that were recounting to him a conversation with an unnamed official in Finance, who he said gave a view on what the Minister's attitude would be to a hypothetical situation which wasn't a real case but which might happen in the future. Now how can I deal with that?

Deputy John Paul Phelan: So you were unaware of anything to do with this until, until you heard it here?

Deputy Michael Noonan: My position is that I don't know whether it's, it was accurate or not. I know that from what was said in the newspapers, it wasn't direct evidence, which was what I was suggesting to Deputy Doherty. It's, supposedly, an e-mail by an employee of IBRC, on his interpretation of a supposed conversation with an official of the Department, who supposedly gave a view on what his Minister might think about a certain event if it happened, but it hadn't happened. This is where the hypothetical thing comes in. So, all I can do is advise you to leave it to Judge Cregan because I'm sure, once Mr. Aynsley said it here, he's going to say it again when he-----

Deputy John Paul Phelan: I'm not even getting into it, Minister, but I just wanted to know were you aware of it at all prior to it being mentioned here.

Deputy Michael Noonan: I was aware of it, I was aware of it when I read a record, an ac-

count of Mr. Aynsley's evidence in the newspapers.

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

Deputy Michael Noonan: That was the first time I became aware of it.

Deputy John Paul Phelan: Can I then ask you in relation to the relationship between IBRC and senior officials in the Department of Finance? And I want to reference, which I did with Mr. Aynsley, *The Sunday Business Post* from 26 April 2015 where there was a quote from Mr. Aynsley, where he said, "I don't think it's a secret that I don't get on at all well with John." The "John" in question being Mr. Moran, the former Secretary General of the Department. Were you aware that, as Mr. Aynsley described, that his relationship with Mr. Moran was as bad as that?

Deputy Michael Noonan: Well, you see, there is a commission of inquiry, there's a specific terms of reference about how the Department of Finance and the Minister for Finance carried out their functions in relation to IBRC. And, I can't see how I can do a preview of anything here today, which relates to that term of reference.

Chairman: We need to move on, Deputy.

Deputy John Paul Phelan: No, that's fair enough. It's just that when Mr. Aynsley was in, those questions were allowed to be asked and I don't see why they shouldn't be asked today.

Chairman: And I would lever in Minister Noonan's prerogative to determine how much space he would move into that here.

Deputy Michael Noonan: I mean, I'm not refusing to answer the question.

Chairman: I know you're not refusing-----

Deputy Michael Noonan: I read the papers like everybody else, so quite clearly there was a bad relationship between Mr. Aynsley and certain officials of the Department, but whether any of that is relevant to anything, I don't know.

Deputy John Paul Phelan: My question was: were you aware of it at the time and when, if so, when did you become aware of it? That's all. That was the question. I wasn't getting into the specifics at all.

Deputy Michael Noonan: Well, I mean, how do you adjudicate on the relationship between two people who meet each other and talk to each other regularly in the line of business, and are entitled to do so? I mean, it's not the Minister's job to assess the level of, the level of relationships between people.

Deputy John Paul Phelan: Okay, can I ask, were matters relating to IBRC and any tensions that may have existed between them and the Department of Finance ever the subject of discussion at the Economic Management Council?

Deputy Michael Noonan: I'm sure there were because there's a whole series of PQs that were recited over the last six months.

Chairman: We're drifting into Cabinet confidentiality now and Cabinet discussions and all the rest of it, Deputy. I would advise you either to get a more determined line of questioning or else move it on.

Deputy John Paul Phelan: Okay. That's fair enough. Can I ask also then in relation to the Fiscal Advisory Council? You stated in your comments earlier that its function was primarily one to provide a contrary view, a contrarian view. The terms under which the Fiscal Advisory Council operates don't describe its function as one to provide contrarian views. They do provide its function as being to provide critical analysis. Can you elaborate on what you were saying earlier on in relation to those ... that position with regard to contrarian views or-----

Deputy Michael Noonan: There are three different reports into the crisis in Ireland and in a number of the reports, and particularly in the Wright Report if I recall it correctly, there's a reference to the fact that within Government Departments that there wasn't a welcome for people putting an opposite view to whatever the convention and wisdom was and I think the same would have happened across Europe. And the idea of independent fiscal councils was developed in Europe and was part of the Irish programme. And the motivation, one of the motivations for it, was that you would have a statutory body operating under law, empowered to give a contrarian view of policy, economic and fiscal policy. That's where I was coming from. On the specific remit it got then, from my point of view, its primary remit is to oversee the forecasts made by the Department of Finance and, in overseeing those forecasts, to agree those forecasts, if they do agree with them. And then they have an advisory role as well, where they make public comment from time to time, and I think they do pre-budget statements and post-budget statements. And a number of the members of the council, and particularly the chairman, quite frequently give media interviews. And in the media interview, they give an independent view of the economy and, as part of the independent view, they state clearly whether they agree or disagree with Government policy.

Deputy John Paul Phelan: Okay. Can I ask then briefly in relation to a question asked of Mr. Chopra earlier by Deputy Murphy in relation to the formation of the current Government? There was some media comment at the time that the troika were involved in discussions with the two parties that formed the Government, prior to Government actually being formed, and that effectively they were almost a third party to the negotiations which took place. Do you have any view as regards that particular media comment at the time?

Deputy Michael Noonan: My recall of it was that the troika were very proper in their relationships with the Government and the Government parties and with the Opposition parties. And while they briefed me and the Fine Gael front bench extensively around the time the programme was being drawn up, there was no contact with them during the election campaign and there was no contact with them when Labour and Fine Gael were designing the programme for Government, but we knew that there were certain things that couldn't be ignored.

First of all, there was a programme agreed and we knew from the discussions with them before the election that they expected us to implement the programme. A part of the negotiation I did with them at that stage was I got them to agree that they would be prepared to negotiate changes in the programme if we were to substitute an alternative measure of equal fiscal value. In other words, if it raised the same tax surfeit and same expenditure effect, they were prepared to talk in those terms. But, of course, they had qualifications in that it couldn't be once off - to get back to a previous question - it couldn't be something that just applied for the one year, it would have to be something that had a base effect which would go forward. But there was no suggestion at all that the troika got involved in any way in the formation of the Government and they had done an arrangement with the previous Government and the previous Government ... if the previous Government got re-elected, they'd have been quite happy to work with them. If your suggestion is they were looking for a change of Government, that is not the position-----

Deputy John Paul Phelan: No my suggestion was just the comment-----

Deputy Michael Noonan: -----they were keeping the Opposition informed because all the polls at the time were saying there'd probably be a change of Government.

Deputy John Paul Phelan: Okay, Finally then, under the Single Supervisory Mechanism, the four largest banks in the State – Bank of Ireland, AIB, Permanent TSB and Ulster Bank – are now supervised by the ECB while other institutions are supervised by the Central Bank of Ireland. Do you feel that there's a risk that we've once more arrived at a dual regulatory structure which could lead to supervisory gaps in the future?

Deputy Michael Noonan: Well, I mean, it wouldn't be possible for a central supervisor in Frankfurt to supervise the multiplicity of banks there are across Europe. So there would have to be a delegation of authority to local central banks. And so it depends on the really ... the value of the banks or the capitalisation level of the banks and I think it's sufficient to do what they're doing. But there are other areas as well, I mean the Central Bank here supervises the credit unions, for example, and there's a regulator of credit unions who works from the Central Bank so there are different layers of it but the Frankfurt people have only just begun what they're doing this year and we'll see how it works out. But so far so good and it seems to work well and I'd have confidence in it.

Deputy John Paul Phelan: Okay, thank you.

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

Senator Michael D'Arcy: Minister Noonan you're welcome.

Deputy Michael Noonan: Thank you, Senator.

Senator Michael D'Arcy: Mr. Noonan, Kevin Cardiff in evidence said that the-----

Deputy Michael Noonan: I'm sorry, who?

Senator Michael D'Arcy: Kevin Cardiff, in evidence, said that the Irish officials and the officials from the IMF didn't believe that the programme would work. You became Minister for Finance within a short period and you started to attempt to implement changes in the programme. Did you believe the programme that you inherited could work?

Deputy Michael Noonan: Yes, I did. Yes, I'm an optimist, you know. I thought it was a pretty good programme and, as I said, Brian Lenihan was held in high regard in Europe and I thought that it was a programme sufficient for the disaster that the country was facing. I'm not saying, like, that in your career as a politician you'd be wishing for a programme like this or that it'd be the kind of thing that you'd want to happen and that you'd have it to implement. It wasn't good news, but in terms of ... if you measured the programme against the crisis that it was supposed to resolve, I thought it had the main elements in place and if we could adjust it through renegotiation, we could improve on it, and that's what we did.

Senator Michael D'Arcy: The adjustments, the reduction in the interest rate €4.4 billion, the extending of the maturities and then the change to promissory note ... can I ask: do you believe that with your co-operation – and I use the word “co-operation” – with Mr. Trichet in relation to the non-burning of the €3.7 billion Anglo senior bondholders ... do you think that some of those adjustments were facilitated because of the level of co-operation between you as the Minister for Finance and Mr. Trichet and the troika?

Deputy Michael Noonan: Yes, there was a feeling around among politicians in Europe and among people in banks and various treasuries that Ireland was hard done by. And you know, kind of ... it was never said openly but the, kind of, messaging I was getting that, “We couldn’t let you do what you wanted to do when you were restructuring the banks, but we’ll try and accommodate you somewhere else”, you know. You see, there was a long history to this if you go back on it. You had the Deauville declaration where the two presidents, the president and the chancellor, indicated that there’d be a private sector involvement in future bailouts and then that put the shivers through the European system. Then there was the meeting in Seoul that, I understand, you talked about this morning, but, again, if you go back to Tim Geithner’s biography, he references a phone call he had with the participants in the G20 and he places it ... he says it was after Thanksgiving and about four days before the Irish programme was announced. And he says that there was political view in Europe that bondholders should be burned and that he advised very strongly against this because as far as he was concerned that ... the European banking system was being drained of liquidity and if you burned the very people that fund banks, the senior bondholders, that the liquidity crisis would have got worse and it would have brought down the European banking system. So, it isn’t the kind of conventional argument we hear here that we weren’t allowed do it because there’d be a contagion effect. It was that there was a liquidity problem in Europe and that the liquidity problem, you know ... if you read Geithner’s book, you’ll see it. And, I mean, there was a lot of people making accusations about Geithner saying that he, you know, he was the key factor in pressuring the Germans, for example, where there was a political disposition to burn bondholders. And it’s true, but he doesn’t deny it, like. He writes it in his autobiography and he gives the detail of the phone call. And he said Mr. Trichet was, equally, I forget the word he uses but, equally strident about ... about burning bondholders in that phone call. And it went on from there, then, and there was a pull-back by France and Germany from the discounting of bondholders. And, you know, Germany wanted it and France didn’t seem to be the thing. And the kind of balancing arrangement was when the German proposals for fiscal union were accepted by France. Then it went on and you had banking union. And as part of banking union, bail-ins replaced bailouts. So now it’s part of the European legal system to bail-in senior bondholders and all other assets right down along the line in a cascade, giving a priority order. So, like, that’s the context from where I sit. But it wasn’t that, like, you had a whole group of people in Europe saying, “No bondholders”. There was differences of view. And the differences of view played out. And, you know, if we were in a programme three years later or if we were going into a programme now, we’d be burning bondholders because it’s now part of the European law. But not at the time.

But there’s no doubt that Mr. Geithner had a very strong view on it and it’s worth reading what he says in the American context because, as Secretary of the Treasury, he had a big influence on Europe and on international opinion on how they’d deal with the crisis because he dealt very successfully with the crisis in the United States himself. As well as that, there’d be a view that, you know, while the IMF have made various statements about ... they were in favour of this and in favour of that, when it went to their executive boards, they weren’t. And I think that the Treasury in Washington has a pretty big influence over the IMF in Washington. So, that’s just by a way of a bit of context Michael ... or Senator, sorry.

Senator Michael D’Arcy: And the ... Mr. Chopra this morning said that the SRB, the single resolution board ... that he felt that the funds were too small and too slow being advanced into it. Do you have a view in relation to that at the moment?

Deputy Michael Noonan: Yes, it won’t be fully in place for eight years and I’d have a ... I think it should have been done sooner, you know, because it goes in in instalments. The actual

fund is €55 billion. And, on the cascade, you run down through shareholders, junior bondholders, senior bondholders of different categories, corporate depositors, personal depositors of over €100,000. If you still don't have enough money to fill the hole in whatever institution you deem to be insolvent, you go on to the ESM and then you go to the resolution fund. So it's the last coach on the road in terms of putting money in to resolve banks. The basis of it was €55 billion is about 1% of the aggregate amount of money on deposits across the European ... the eurozone banks. So, it is a 1% figure. And, I suppose, because it's ...it's at the end of a cascade of other assets, it's probably sufficiently big. But if it was first up, 'twould be far too small.

Senator Michael D'Arcy: In evidence also this morning, Mr. Noonan, Mr. Chopra said that the €160 billion of funding from the ECB that was ... that the Irish banks were using ... that the ECB effectively wanted their money back. Was that the primary reason the State ended up in a national bailout?

Deputy Michael Noonan: No, I don't think so. I mean, the reason ... the proximate reason that the State went into a bailout was we couldn't get money on the market and we were running deficits. And if you're running deficits, you're running your country on the last run of expenditure on borrowed money. And if no one will lend you, I mean, the choices are then make a big correction overnight so that your income from tax equals your expenditure. And that means cutting expenditure and raising taxes.

Chairman: Now, Senator, I need you to wrap up there.

Deputy Michael Noonan: Or doing it over a period of time. And what the bailout did is it allowed the adjustment to be made over a period of time.

Senator Michael D'Arcy: Can you discuss, Minister, the interactions between the Central Bank, the Department of Finance and the ECB in relation to legislative changes on financial regulation?

Deputy Michael Noonan: A good bit of it was done by my predecessor, Brian Lenihan. But there was ... you know, arising from the Honohan report in particular, there were specific measures specified. And in my lengthy introductory statement, I outlined the legislation that was carried out there. But in terms of the discussion, it would have been done by agreement - principally between the Department of Finance, the Irish Central Bank and the banking authorities in Frankfurt.

Senator Michael D'Arcy: And finally, Minister, can you comment on why there has been no legislation to consolidate the numerous Central Bank Acts despite criticism from both the ECB and the Department of Finance dating back to 2002 and 2010, respectively?

Deputy Michael Noonan: Pressure of work mostly. All the things that the Department of Finance had to do around the bailout and since. But I was clearing the legislative programme with the various A, B and C lists which are to be circulated to the Dáil shortly. And in the second list, there's a proposal to introduce a Central Bank consolidating Act. So there's some progress being made. This morning I was clearing that.

Chairman: Thank you very much. Senator Marc MacSharry, please.

Senator Marc MacSharry: Thanks very much and thanks, Minister, for being here. From his experience as chairman of IFSRA, Brian Patterson, suggested to the inquiry, and I am quoting:

A modern Financial Regulator needs a board with regulatory experience and skills. It needs an enabling legal framework with strength to counter the naturally powerful influence of the banking sector. It needs to be well resourced, to have a fast-moving capacity to develop its IT capability and to recruit expert staff. It needs freedom of action and clarity in its legislative mandate [and] that it's single-mindedly to prioritise the stability of the banking sector over other competing public policy goals.

Do you believe the current structure adequately fulfils each of these criteria?

Deputy Michael Noonan: Yes, you read your list very rapidly but it seems to me that the way the Central Bank is structured now and the way it is bedded in law allows it to fulfil all those. I mean, the Central Bank is the single regulator now and it has the capacity. It's independent, under law. It also is very well resourced, because it's very profitable, and it isn't subject to any of the recruitment embargoes that Government Departments have been subject to. So it has hired an awful lot of extra staff. And there's extra staff ... there's ... there's people available of high expertise in Ireland now coming out of the universities and some of them have worked abroad, in the City of London and elsewhere, so the expertise is there. So, I think they have the capacity. In terms of the board that they report to - in Central Bank terminology, it's called the commission - but they have a ... there's a lot of very serious ... serious people in there and they seem to have a high level of competence.

What was your last ... the only doubt I had was your last sentence. What was your last thing there?

Senator Marc MacSharry: "It needs [the] freedom [and] action [of] clarity in its legislative mandate that it's single-mindedly [focused] to prioritise the stability of the banking sector over [any] other competing public policy goals."

Deputy Michael Noonan: Yes, there was a debate about that back in the '90s, you know, and there was an Oireachtas committee put in place under Deputy Michael Ahern and I served on it. And at the time, the argument was that because it single-mindedly ... because the Central Bank single-mindedly concentrated on the stability of the bank, it ignored consumer interests. So that's the only qualifier I'd have. I think there has to be something in that list there to look after the interests of consumers. And it's not just the solvency of banks and keeping banks, you know, moving forward and getting them to land into the economy, which is of vital importance. But the ordinary person dealing with the bank, there must be a regulatory function to protect their interests as well and vindicate their interests if they're transgressed.

Senator Marc MacSharry: Maybe your committee in the '90s was over-successful because the evidence we've been getting was that the focus of the regulator and the Central Bank was only on the consumer side and nothing on the macro-prudential side. Just, then, the same question ... just ... to follow on to the next question rather, what we've had - without prejudice to the various witnesses we've had - from the regulator and the Central Bank ... a number have said they had difficulty in getting their case across to senior management or, indeed, the board in one instance where the senior economist was saying that. Are you happy there are procedures in place now that if there are contrarians - and you yourself highlighted that the contrarian view isn't always welcome - are there adequate provisions now and measures and a structure which welcomes that and ensures that, however junior and, particularly, however senior somebody with a contrarian view ... that that will reach not only the Governor and the seniority within the bank and the regulator but also your own office?

Deputy Michael Noonan: Yes. Like, without having worked in a place, you're never sure how internal procedures worked. But in terms of accountability, the Governor of the Central Bank is very amenable to the Oireachtas, for example. And I understand he has appeared before the Finance Committee on a number of occasions with his senior staff and shows no reluctance to answer any questions that are put to him. And, you know, in the business we do as public representatives, you often get the contrarian view and you have an opportunity to put it to the Governor. So, yes, I think, it's a lot better than it was.

Senator Marc MacSharry: Evidence that we've received from John Hurley, former Governor of the Central Bank, from the night of the guarantee suggests that to allow Anglo Irish Bank to fail ... that it would have been his view that it would set the country back a number of decades. I think 30 years was mentioned, perhaps not by him but in representing what he said by somebody else in the room in giving evidence. From what you know, would you agree with that?

Deputy Michael Noonan: Well, you know, any big institution that has loans right through the economy, even if it becomes insolvent, if you pull plug overnight. there'll be huge damage. Like, Lehman Brothers when the plug was pulled in the States did huge damage. But it can be wound down over time, which is what we decided to do with the liquidation. So my answer is that if you do it, like, in one fell swoop it will create a lot of damage, which would have repercussions across the economy, but if you do it in a planned, systematic way, because you've got a dud and you need to remove it, well then you can do it, as we're doing it now.

Senator Marc MacSharry: So if you had your time again, would you support the guarantee again?

Deputy Michael Noonan: I supported the guarantee and I qualified what I was doing on the night. And I spoke to my own people and I said, "Look, we don't much choice but to support it, but it is too widely cast". And then I asked the question during the debate to know was it intended to solve a liquidity problem or a solvency problem and the late Brian Lenihan assured me that it was liquidity. Now, I don't think he could have given me any other answer on the night. If he said it was solvency, the house would have come down the sky would've fallen, like. I don't think ... I mean, the way he looked at me I knew that ... I mean, I was quite friendly with him, like, so I had a different view. But I think if there was a mistake made on the night, it was that there wasn't a quick move to recapitalise shortly afterwards. Because it was as clear as crystal that very quickly, even if people didn't realise it on the night, that there was a solvency issue staring us in the face, and it wasn't just liquidity.

Senator Marc MacSharry: Very graciously on the day the late Brian Lenihan died, in the media you said:

I always said he was very effective in controlling the budget which was totally out of control when he became Minister. He was very thorough on ... [that] fiscal side. He was less successful in his banking policy. His decisions there were bad in my view but I would excuse him because many of his decisions were based on incomplete information or downright bad information.

Could you expand just on specifically the incomplete-----

Deputy Michael Noonan: Well, first of all-----

Senator Marc MacSharry: -----or bad banking information?

Deputy Michael Noonan: First of all, I liked him and respected him. News of his untimely death came in when the Government was having a meeting in Farmleigh and I did it outside the door at Farmleigh for the one o'clock news what you've just quoted. You know, I wanted to be consistent with the attitude I had taken when I was opposing him in opposition. And I had said in opposition on interviews that I agreed largely with the fiscal policy he was pursuing but I didn't agree with the banking policy. So, it was a reiteration of what I had done when I was the spokesman opposing him, but he'd have known that, like, but we, you know ... I mean, it's pretty well-known around Leinster House we spent a lot of time together, you know.

Senator Marc MacSharry: Oh, absolutely. And there is no issue with that at all. And it was very gracious. No, I'm specifically interested in the reference to bad information and incorrect information on banks. So, having taken over as Minister, had you reason to believe that the Minister before you, irrespective of the emotion of the day and a friend passing on, had you information which would say the Minister, the then Minister Lenihan, was given not just bad information but incorrect information?

Deputy Michael Noonan: No. I don't think he was given bad information or incorrect information by the Department of Finance, but I don't think the banks gave full information the night of the guarantee. I don't know, I mean, you've heard them here. But my view always was that full information wasn't given to the policymakers around the time of the guarantee. And, certainly, I don't think Anglo Irish Bank gave full information but maybe they did. But I was actually referencing something that Brian had said himself in an interview and that's what I was back-referencing there.

Senator Marc MacSharry: Okay. Just to take-----

Deputy Michael Noonan: You know, like with ... you know these situations. And you're in politics a long time and you come from a distinguished political family. You owe it to everybody, no matter what you're saying, to be consistent and truthful. So I was trying to make sure that there was a fulsome tribute being paid, which I was sincere about, but, at the same time, I didn't want to pretend that I hadn't been critical about certain aspects of what he did at the time. And that's is why it was phrased-----

Senator Marc MacSharry: No, I do-----

Chairman: Let's move on so.

Senator Marc MacSharry: No. I do ... I understand it completely. Just on the comment that you felt that the banks weren't giving all the information on the night of the guarantee to officials, did you mean to the politicians or do you mean to the Central Bank to the politicians or do you mean from the banks to the Central Bank to the politicians?

Deputy Michael Noonan: No. I had no first-hand knowledge of it. But like everybody else-----

Senator Marc MacSharry: This is the last one.

Deputy Michael Noonan: -----I'd be interested in the evidence the bankers gave, you know.

Senator Marc MacSharry: Grand. Just on a lighter note and to conclude, I was reading an article in recent days in *The Examiner*. It was written by Ger Howlin, it was about a completely

different issue but he spoke of the file in the Department that the Minister never gets to see and it's the one that being prepared for his successor. So, if there is such a file, was there anything in the one that you were given about your predecessor and that Government which you might like to share with us today that might be of interest to our deliberations?

Deputy Michael Noonan: No. Brian Lenihan, the late Brian Lenihan, was held in very high regard in the Department of Finance. Any official I ever spoke to spoke well of him and spoke well of his abilities and also spoke in terms of he being a nice person to work with, you know. I have already told the Department I'm going to succeed myself, so it's on that basis they're preparing the file.

Senator Marc MacSharry: Very good. Thank you. Thanks, Minister.

Chairman: Senator Barrett.

Senator Sean D. Barrett: Thank you very much. And welcome, Minister Noonan. In his testimony to the inquiry, the former chairman of IFSRA, Brian Patterson, noted that the Financial Regulator was reluctant to use its sanctioning powers due to real concerns about legal and possible constitutional challenge. Has that been resolved since as far as we know, Minister?

Deputy Michael Noonan: Yes, I mean, there has been a whole corpus of law put in under the Central Bank now. And I suppose the best test of it is the Governor, Patrick Honohan, hasn't come to me looking for any amendments in law to strengthen his position as Governor or the position of the various regulators that work to him.

Senator Sean D. Barrett: You mentioned in your statement on page 7 that the Wright report identified the Department of Finance as one of the strongest contrarians during the previous decade. But I think there was a reluctance to write things down. Wasn't that one of the problems he found too - what was the nature of the contrarianism? Has that changed in your time?

Deputy Michael Noonan: Yes. Like the process is there is MAC, Civil Service MAC, where the management team meet every week and they discuss all issues. Now I don't attend the MAC; I get reports from the MAC. But one of my political advisers attends the MAC. But then when submissions are made to me, they're made in writing and there is always a recommendation to agree or disagree, or note or whatever. But within the case made, there are different views expressed. So, if there's a contrarian view, I would expect it to come up in the submission, but they don't say, "Everyone here has different views", so, no sorry, the way I'll put it is ... they always make a recommendation but it's clear that if there are alternative views, they're reflected in the submission.

Senator Sean D. Barrett: One of the things we found, Minister, was an OECD report being fairly severely censored without being shown to the Minister. Does that custom still-----

Deputy Michael Noonan: When was that?

Senator Sean D. Barrett: I think that was in 2008. And some of the things, I think, were interesting about bank resolution and so on and changing bank housing bubble to some word less strong. And it seemed to have developed that the officials got the chance to do this unknown to the Minister.

Deputy Michael Noonan: I don't know. I mean, the, kind of, run of reports I get - I get NAMA reports, NTMA reports, Central Bank reports and then reports from OECD, comments

from the Commission, all that kind of stuff. And everything is presented to me and nothing is redacted.

Senator Sean D. Barrett: Yes.

Deputy Michael Noonan: And we have a practice now of putting as much as we can up on the website. Rather than waiting for freedom of information, we just ... if we can, we publish and share the information. We send a lot of stuff over to the finance committee as well, as the Chairman will be aware.

Senator Sean D. Barrett: On the same theme, Minister, ringing up the ESRI if they didn't much like what was in a quarterly or in a medium-term review, John FitzGerald referred to something, code named "Nervous Nellie". He used to ring up if he didn't like what the ESRI was saying. So, I mean, the new dispensation, that kind of-----

Deputy Michael Noonan: As far as I'm concerned they can say whatever they want to say, but I reserve the right to talk back like, you know, if I disagree.

Senator Sean D. Barrett: Of course. The Government economic evaluation service - can it become on the expenditure side the kind of body that IFAC is on the taxation side?

Deputy Michael Noonan: We have appointed a chief economist, whom you heard here, John McCarthy, and he has a team of people with him, all with economic qualifications. And they're a particular unit in the Department and they handle all the forecasting and ... and all that side. So, it is a unit. Are you saying it should have a statutory base or something?

Senator Sean D. Barrett: I think... when we get legislation in the Seanad or in the Dáil, shouldn't it have economic evaluations attached to it? Regulatory impact assessments seem to be declining in the numbers. In other words, we want to participate in the contrarian views being known. I think it's in the background, Minister, that there was so much consensus/complacency that one has to ensure that doesn't happen in case there's a recurrence of this crisis. So, the more differing views and the more economic analysis of documents and Bills and policies that come to the Oireachtas, the better I think.

Deputy Michael Noonan: Yes, that's a good point. I will look at that.

Senator Sean D. Barrett: The public capital programme historically didn't have much in the way of economic appraisals. Should that be changed, given the importance of investment and that it should yield a return and not just leave a bundle of debt for yourself or future Ministers to deal with?

Deputy Michael Noonan: Yes, we're ... NewERA now does an evaluation of all the major proposals in the public capital programme, and it's the function of the NewERA, in effect, to give that kind of advice. So ... it wouldn't apply to smaller projects, smaller cost projects, but all the big stuff would've been evaluated.

Senator Sean D. Barrett: Was the split of the Department of Finance and public administration and reform, while vital in dealing with the bank crisis ... is it the correct way to go forward into a more non-critical situation?

Deputy Michael Noonan: Well, there were historically two Departments, because you had the Department of Labour and, quite frequently, it was labour and the public service. So you had all the HR role of the Department of labour and the public service carrying out the func-

tions that Minister Howlin carries out now. The additional role that it was given was control of expenditure. It was a decision that came from a position paper developed by Deputy Richard Bruton in opposition, where we thought, with the events that we were facing into if we were in government, that you'd get a better control of expenditure if you had a distinct Minister looking after it who could be hands-on in terms of expenditure. Now, whether it lasts into the future or not, you know, when there's less pressure on the kind of things I do ... you know, if banking fully stabilises and the Central Bank is running the banks and you don't have the, kind of, hands-on thing that we had over the last couple of years with banking concern, I suppose there's a case to be made for re-amalgamating the two Departments. But it is a matter for the Taoiseach and the incoming Government, and there has been no thought given to it yet.

Senator Sean D. Barrett: Has Irish banking been able to move away from its property fixation? I mean, we'd some numbers, Minister, that 8%-9% of some of our pillar banks, of their investment, was in industry and agriculture combined and multiples of that into property. Can you turn them around to make them more interested in developing the wider economy?

Deputy Michael Noonan: Yes, it's moving away.

Senator Sean D. Barrett: Good.

Deputy Michael Noonan: A lot of investment in agriculture now; a lot of investment in SMEs also. But as well as that, as we identify new sources of funding, like European Investment Bank money now for SMEs being channelled through the high street banks, AIB and Bank of Ireland. The money provided by EIB is not for construction purposes; it's for growing the economy and it's for the SMEs. So, very often, the authorities from which the funds come dictate the uses to which the funds are put and are adverse to too much funding of construction. Yes, it's improving, but, I mean, I would never say to you that we have completed the work on the banks. It's an ongoing project and, while the economy is stabilising, there's quite a lot to be done yet.

Senator Sean D. Barrett: Were there codes for the relationship between bank regulators and banks, you know, and what should they be? I mean, one model might be that the bank regulator should be hated by the banks because he is controlling them in the public interest, and not be seen as part of the bank industry. When Governor Honohan gave notice that he was leaving, the headline was "Top Banker Quits". Well, he's the top bank regulator, but ... can that distinction be made, Minister?

Deputy Michael Noonan: Yes. I mean, but if you go back in it, the fault in the past was that the, kind of, conventional wisdom was that bankers were in the higher professions. They'd be like doctors and accountants and they should self-regulate because there were of high ethical principle, so that your regulation would be at a level of principle. So, you know, the regulators set down the principles of the regulation and set down protocols, and then the bankers would follow. But there was no hands-on scrutiny of whether they would ... were following or not. So that's changed completely now. I mean, there's staff of the Central Bank now inside in every bank, and they're there more or less on a full-time basis.

Senator Sean D. Barrett: In your reply to Deputy Doherty, you mentioned the-----

Chairman: Wrap it up now please, Senator, if you can.

Senator Sean D. Barrett: Thank you, Chairman. The 39 economists that Mr. Wright found and contrasted it with your opposite number ... Jim Flaherty had, in Ottawa, a much larger

complement. I mean, we have a document that's circulated to us today which shows 39 masters in the economic section and one PhD, so it's almost the same as the number that Mr. Wright wrote about-----

Deputy Michael Noonan: I think Mr. Wright's figure was across the Department as a whole. That's just in the economic forecasting, the economic section, because it's much bigger than that now.

Senator Sean D. Barrett: Yes.

Deputy Michael Noonan: I don't think you're comparing like with like, but I can get you the figures.

Senator Sean D. Barrett: Yes.

Deputy Michael Noonan: I probably have them there but-----

Senator Sean D. Barrett: It's the table on page 18, Minister, and thank you very much. And thank you, Chairman.

Chairman: Thank you, Senator. I just want to round off one issue there that Senator Barrett was dealing with you. That was when you were discussing the whole IFSRA regulatory ... regulation model and so forth. One of the issues that this inquiry looked at, Minister Noonan, was what powers were available to the regulator and what powers were available to the Central Bank at the time of the growing crisis and whether those powers were used or not, or whether there were recommendations with regard to further legislative change that would be required to enable the type of powers that may not have been available to deal with a growing crisis. So, in that regard, could I ask how closely do you monitor the use of the powers that the Central Bank now has and the subsequently regulation structure that has been brought in under it? And do you query any apparent lack of use of same?

Deputy Michael Noonan: Well, the position is the Central Bank is independent under law, and the regulatory function has been put back in under the ambit of the Central Bank now, with the chain of command being the banking commission, the Governor and then two assistant governors, and running right down to different areas of regulation. If the Governor feels that his statutory powers are inadequate, he will come to me looking for additional powers. I would not intervene as a matter of routine because I'm not supposed to; the bank is independent. But if individual issues come to me, either from Deputies or from the general public or otherwise, then we would question it. And, you know, a number of issues have come up and we have questioned them. My view is that it's ... it's adequate at present but you need to be constantly alert. And, of course, we have started a competition now for the recruitment of Governor Honohan's successor and, again, that will be a very important development.

Chairman: So are you saying in that regard that policy positions taken by the Central Bank, in regard to supervision or mortgage products and lending products, or a policy position like the 20% deposit requirement, that you clearly see your role as not to be interfering in those positions?

Deputy Michael Noonan: On that ... prudential measures taken by the Central Bank, the first announcement was starker than what finished ... finished up. And the Governor invited submissions in a consultation process even though the Central Bank was independent of the Department of Finance, I felt free to make a submission. So we made a Department of Finance

submission and the prudential regime, because there was a lot of submissions in, was softened somewhat. So that's the kind of relationship ... but they are independent and, in the final analysis, the decision was a matter for the bank. It was not my decision.

Chairman: Thank you. Michael McGrath.

Deputy Michael McGrath: Thank you, Chair. Good evening, Minister Noonan, and thank you for your attendance.

Deputy Michael Noonan: Thank you, Deputy.

Deputy Michael McGrath: Can I start by asking you about the testimony of Cyril Roux, the current deputy governor of the Central Bank? In his testimony in June, he highlighted that in the area of banking supervision there are 140 approved posts and 124 of those are currently filled - so a vacancy rate of in excess of 10%. So are staffing and vacancy rates discussed with the Governor, in your regular meetings, and are any steps being taken to overcome the problems identified where positions can't be filled?

Deputy Michael Noonan: I mean, they have a very large budget because they're a profitable organisation. The Department of the public service does not give them an agreed complement of staff as it does with Government Departments and certain agencies. He's the deputy governor. They're entirely free to go away and recruit the 16 that he needs.

Deputy Michael McGrath: I think the specific issue raised was around pay and restrictions on pay.

Deputy Michael Noonan: Well-----

Deputy Michael McGrath: That was the reason he gave, but this is an issue that arose-----

Deputy Michael Noonan: -----that's a different issue.

Deputy Michael McGrath: -----in evidence going back a number of years as well in the regulator's office where, apparently, they couldn't fill vacancies. And one might assume that that issue was no longer relevant but they have a vacancy rate of over 10% in banking supervision today. That was his evidence, so I am just putting that to you.

Deputy Michael Noonan: Well, you know, what I'm saying is try ... try and fill them. There's a lot of people out there who are very highly qualified and that certainly work for the pay and salary levels that the Central Bank pays their people. But it's a constant issue, more with Minister Howlin than myself because he's responsible for setting pay levels and pay controls. But we had to control pay and I'm ... I get pressure from NTMA and I get pressure from NAMA and I get pressure from the banks saying that the ceilings are too low and "We can't hire adequate staff", but what about everybody else, you know?

Deputy Michael McGrath: Okay.

Deputy Michael Noonan: So I'm holding the line until I get better arguments.

Deputy Michael McGrath: Okay. Minister, have you concluded in your own mind that, as a State, we're likely to get a better return from disposing of our shareholding in the banks that we currently have part ownership of or are you still holding out the prospect of a deal on bank debt from Europe?

Deputy Michael Noonan: Well, this is what's generally referred to as reactive capitalisation of the banks.

Deputy Michael McGrath: Yes.

Deputy Michael Noonan: When that was conceived of first, it was always envisaged that there would be an exchange of the shares in the banks for money from the ESM and ... that they'd take the shares and they'd give us money and we'd use the money to reduce the debt. And that was the way it was conceived and for a while I would have thought that that was a reasonable solution. If we had activated it after the meeting where it was first indicated in June of 2012, we'd have got about €5 billion - that would have been about the value of the shareholding. But, as time has passed, our banks have got very strong. And, like, I'm not ideological about this. My interest is in recovering the maximum amount of money for the Irish taxpayer and it seems to me now, the way things have developed, and with the slowness of the ESM in activating their legal power to directly recapitalise banks, either on a current basis or on a retroactive basis - because they have entertained no application yet - I'm following the route of selling some of the shares. Now, what's ... what's in question really is AIB. PTSB isn't ready for market yet and we have only 14% of Bank of Ireland and ... it's a useful asset, it's worth about 1.6 billion and it's growing. So I have no plans to sell that at the moment but I'm sure one of my successors will. The policy is we want to restore the Irish banks to the private sector but we're not in a big hurry to do it.

Now, on AIB ... at present, they're restructuring so that if we come around to selling 25% of it - as I suggested we would - then it's structured in a manner that can do that. Now, there are preference shares there that are worth around maybe €1.6 billion, €1.7 billion. There's a dividend which we would expect this year, maybe €300 million, maybe €400 million. These are ballpark figures. The CoCos ... next year they'll have to repay the CoCos anyway. That's the contingent capital that I referred to in my introductory remarks, which would be repayable if the banks didn't need it. That's about €1.6 billion and if you put another €400 million or €300 million in on dividend for next year, that's where the figure that was used in the media of €4 billion comes from. Now, because of the banking union, the new banking regulation unit, the regulator in Frankfurt will decide on the adequacy of the capital levels of AIB. And they may decide that some of the preference share value has to be reinvested as capital, so we're not quite sure where it's going to land. But, you know, my advice is around €3 billion and if everything arrived €4 billion, but probably somewhere in between. And on the timeline, then, we expect to hear from Frankfurt in the next number of weeks, hopefully before the budget but the Europeans are never impressed by domestic deadlines so they won't rush themselves to get it in before the budget for us, but it's expected in the next couple of weeks. And I'll brief you then, through the finance committee, and we can have a discussion on it because I know there are a lot of people here who are in the finance committee. Excuse me.

The CoCos will be for next year and I have decided that because we're in an election year, that I don't want to be selling 25% of AIB in the middle of an election campaign because with all the different policy options that'll be thrown around, I don't think it would be good for values. So there won't be any sale of AIB until the election is behind us. At the earliest, it would be May, June or maybe later - maybe in the autumn of next year. And that depends on the incoming government but we're making the plans and arrangements to get to that position. So that's the first piece of it. Now the shares then ... we'll sell 25% of it. It was valued ... the last valuation was around €13 billion but I think that might have included the preferences and the CoCos. So if you strip those out and look at a quarter of that, we'll see where we are. But I'd

be very confident and my advice is that we will recover fully everything that has been put into AIB, Bank of Ireland and PTSB. And the residual hit on the Irish taxpayer will be €30 billion or so, which will eventually be the loss ... the net loss for Anglo, regardless of the arrangements we made to replace the promissory note.

So that's the position and, in that context then, I'm still keeping the option in place of applying to the ESM for recapitalisation on that basis. I'm doing it in the eventuality that a future government is the victim of some unexpected shock where they need to realise a lot of capital quickly to reduce the debt. If that were to happen, you know ... I think China is very sound at the moment but supposing China rolled over and it was really a major crisis, along the lines of the '29 recession, in China you might find then that the level of our debt is sufficiently high to cause concern in the market, and you might need a ball of money to quickly reduce it. So I'm keeping the option open but, to be totally honest with you, what I expect to happen is that we'll recover our money by selling the shares in AIB without selling them at a lower price - which is the way it would be - to the ESM. But I'm still keeping the option open of applying to the ESM, because things could change in Europe. Greece has a banking problem at the moment, and while €25 billion has been pencilled in to resolve the Greek banks, it is not quite clear to me how they're doing it yet, whether they'll channel through the sovereign or whether they'll get some of it directly for the ESM, so, so, that's my position, and I'm being fully open with you because I know-----

Deputy Michael McGrath: You might give me a bit of leeway, Chair. It was a long, but a useful answer to get out there-----

Chairman: Indeed, I will. I will.

Deputy Michael McGrath: -----on the record. It was important to get it on the record, so, in-----

Chairman: No, no. Plenty of flexibility, Deputy.

Deputy Michael McGrath: -----in summary, Minister, do I take it that the, the position is that for the remainder of the lifetime of the current Government, there won't be a sale of a shareholding in AIB, but equally there won't be an application to the ESM for retroactive bank recapitalisation? Is that the Government's position?

Deputy Michael Noonan: Yes, that's about it. We got ... we, we succeeded in ensuring that the legal power to retroactively recapitalise banks is in the regulations for the ESM. So, they can legally do it. I know from finance Ministers there is no disposition among some of them - naming Germany, Netherlands, Finland and a few more - to use this power. And the power must be used on the unanimous agreement of the governors of the ESM, and the governors of the ESM are the finance Ministers of the eurozone wearing a different hat. So, unless there's unanimity there, and then it must be on a case-by-case basis. So, what I'm telling you, from a policy point of view, is I'm not recommending to the Government in the near future to apply for retroactive recapitalisation, but neither am I saying that I won't do so in the future. And, secondly, I'm saying that there will be no recapitalisation of AIB before the election, regardless of whether or when the election takes place. And I have already told the people who are preparing AIB for market that I want to continue with the restructuring but we're not going to press the button on a flotation, an IPO, until late summer or early autumn, and then it will be a matter for the incoming Government and for whichever personnel make up that Cabinet and whoever is in Finance.

Deputy Michael McGrath: Minister, you refer on page 9 of your witness statement to the proposed introduction of an independent budget office and can I put it to you that you would be doing democracy a service if you put such an office in place before the next election so that the proposals of the various parties could be independently costed and which would allow for informed decision making by voters at the next election? Why can't it be done in advance of the election in six months' time or whenever it is going to be?

Deputy Michael Noonan: Yes, I thought originally it could be done. I announced the package of budgetary reform, where we'd have a spring statement, and we've delivered on that, and where we'd have an economic dialogue, which we had in the castle in the summertime. And the third leg of that trilogy was an independent budget office to which I'm committed, but when I took advice from officials and cross-matched it with people in Leinster House, the timeline was too short to do a proper job on it. But I'm still committed to it and I will put it in our own programme for Government. And I promised as well that I would consult with you if it's ... if it's my function to do so. But I am committed to it, but I ... I won't get it done before the election.

Deputy Michael McGrath: The final issue I want to touch on, Chair, is going back to the ... the end of March 2011 banking statement which you made. It isn't in the core booklets that you have, but the NTMA paper of 20 March 2011, which I'm sure you're familiar with, which examined the issue of burden-sharing, it didn't limit its analysis to Anglo and Irish Nationwide. They included the surviving banks as well, and they actually quoted in that paper the arguments from AIB and Bank of Ireland, who were consulted, and they gave their arguments as to why their senior debt shouldn't be ... have losses imposed, but the NTMA concludes against their wishes and says that you could and should proceed. So, why did the Government decide, even though it didn't actually happen in the end, to just go down the road with Anglo and INBS and not the surviving banks?

Deputy Michael Noonan: Because in ... in the bank restructuring package, we were reducing effective banking to two pillar banks: AIB and Bank of Ireland. And we foresaw that very shortly they would be trying to get funds on the market. And the advice from the Central Bank and from Finance - and the NTMA didn't push that advice, you know, beyond having written it, they didn't push it hard - that the risk was too high. That if we were trying to put two banks in place to fund the economy, that if the first thing we did was to burn the people we expected to lend to them, that we wouldn't ... we wouldn't get the money, so that was the reason.

Deputy Michael McGrath: Just on the events of-----

Deputy Michael Noonan: But I mean, all these things are ... all these things are, are the best, the best decision you can make-----

Deputy Michael McGrath: Sure.

Deputy Michael Noonan: -----on the advice available. And, I mean, there's ... there's counterarguments. I'd be the first to admit that.

Deputy Michael McGrath: Finally, just on the events of ... of that day, and you've given your account of the ... the conversations with Mr. Trichet, Mr. Kevin Cardiff, when he was before the committee, was also questioned about it and he said he had contacts that day with Frankfurt as well and the message he was getting was that a statement of support from the ECB on the Government's banking strategy, which was about to be announced, would not be forth-

coming if the Government had not taken the advice of the ECB. Was that conveyed to you, or?

Deputy Michael Noonan: We were ... we were looking for a statement of support and we got it at the end of the day, but my memory of it is that it was the format of the statement that was at issue rather than no statement at all. I mean, you could have a statement like we got after 18 months of dealing with the promissory note - "we note the decision of the Irish Central Bank" - which hardly did justice to what had happened in between. So, it ... I, I don't recall that they ever threatened to withhold a statement.

Deputy Michael McGrath: Okay, the nature of the statement-----

Deputy Michael Noonan: Yes.

Deputy Michael McGrath: -----was an issue.

Deputy Michael Noonan: I think, I think that was the position, and we were ... I remember going into the Dáil signing off on a statement I'd agreed to, late as I was to the Dáil, on the way in, from the first floor there going in that top door. I was stopped by an official and they said, "We've got an e-mail now from ... from Frankfurt, and, you know, could you agree this statement?" And it was ... it was a good statement, I thought. It was supportive-----

Deputy Michael McGrath: Thank you, Minister.

Chairman: Thank you very much. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Welcome, Minister Noonan. The initial projected cost of the bailout has subsequently been mitigated by reductions to interest rates and various loans making up the bailout package. Okay, this is Vol. 1, page 139 to 140. Can you quantify the total savings arising to date as a result of the interest rate reductions? Can you outline any major obstacles encountered in securing these reductions, and are there any further opportunities to achieve savings from repackaging or restructuring these loans or have the possibilities for doing so now been exhausted?

Deputy Michael Noonan: Yes, I mean, I'd have to send you a schedule of the savings because if I tried to speak from memory, and I don't think I have a document that covers everything.

Deputy Kieran O'Donnell: There were two latter points: the major obstacle encounters and-----

Deputy Michael Noonan: I will, I ... I'll go through that. The first thing was that it ... I think it was your second witness this morning said that many of the things were decisions for the finance Ministers and on the political side rather than from the Commission. And, you know, when the interest rates were designed for programme countries, Ireland being second up, in their wisdom, some of the Ministers from the creditor countries decided that if they didn't punish us, they'd do it again ... we'd do it again. And the punishment was referred to as "moral hazard", and to avoid moral hazard they were sticking a premium on to the interest rates to make sure, like, that we didn't enjoy it so much that we'd do it a second time. So I pointed out to them that people who lose their jobs and get their pay cut by 20% were unlikely to sin again and we didn't really need the margin to ... to teach us manners. So there was a lot of debate going on, but that was the first obstacle ... was to get over the moral hazard argument that some of the creditor countries, particularly the smaller creditor countries, were very hot on. Once we

got over that, then, we ... we ... we began to move.

The second obstacle was that there's a kind of a protocol - I don't think as a matter of law, but it is precedent and practice in Europe - that any concession you give to one country, you give it to other countries. So, like, if ... if we got a concession, 'twould have to apply to Greece and 'twould have to apply to Portugal and subsequently to Cyprus and Spain and so on. So, you were never arguing on your own. After a while then, we began to get allies and, as I said earlier, people thought we were hard done by on other issues and we got a ... a lengthening of maturities and a reduction of interest rates. And there was still a margin but it was a substantial reduction.

Deputy Kieran O'Donnell: And ... or do you believe there are further opportunities, or at this stage has all been exhausted?

Deputy Michael Noonan: Well there was a second ... a second round then, when there was a concession made for Cyprus and ourselves and Portugal got together, and we said under the precedents, we want to get the same treatment. So we did get a further reduction so-----

Deputy Kieran O'Donnell: Currently.

Deputy Michael Noonan: -----the interest rates that now apply to the official debt are ... there is very little above cost.

Deputy Kieran O'Donnell: So you see no further scope?

Deputy Michael Noonan: Well after that then we got the promissory note that you'd be familiar with.

Deputy Kieran O'Donnell: Can I lead into the promissory note?

Deputy Michael Noonan: Well, once I finish it. And then we got permission to refinance the IMF loans. I always said the IMF loans were worth €1.5 billion to us but the Commission's assessment of that was €2.1 billion, and the way it's working out now, it's ... they're nearer to being right than we were. We're always very conservative in the claims we make, you know. So that was the next piece of it. And then I have a general instruction after conversations with NTMA to refinance anything, any instrument they're holding; if they can refinance it at a lower cost, to do it. So they're doing bits and bobs on it.

Deputy Kieran O'Donnell: But that would be in the normal course of business for a Government rather than a programme.

Deputy Michael Noonan: Well, you see, it wouldn't be unless ... if they were proactive, maybe, yes, but like I asked them to examine their whole portfolio and see are there other things you can do where you have a high-cost instrument and replace it with a low-cost instrument, and they're doing that as part of normal practice.

Deputy Kieran O'Donnell: In the limited time I have, Minister, can I just lead into the "pro notes", the promissory notes, and the two points I might refer to are Vol. 1, page 3 and then Vol. 1, page 31. Vol. 1, page 3, Minister, is the ... it looks to me like ... it's an EMC memo around ... dated 10 October 2012 around the idea of the pro note. And it speaks about a 40-year Government bond should be acceptable to the ECB as the ECB already accepts 40-year-plus bonds. And then we look for a firm commitment that this long term to be held by ... would be recognised, a special holding would be held to maturity. And then when we come to page 31, it's the actual ... what was put in place. So the two quick questions, I suppose, I want is in terms

of negotiations on the pro note, did ... how did it come about that the initial proposal you were looking for, which was a 40-year bond to be held in its entirety for the full duration by the Irish Central Bank to a point where, we'll say, you're holding ... the Central Bank is holding a series of bonds of various durations, whereby the Central Bank is required to sell these on to the open market as soon as possible. And how long, do you think, before all those bonds would have to be discharged onto the open market?

Deputy Michael Noonan: Well, first of all, we were trying to come up with an alternative to the promissory note. And it would involve, obviously, the European Central Bank. And after a lot of discussions at different levels, the European Central Bank's biggest problem was while they would agree to some level of principle that what we were looking for was a request that they would consider, that their legal mandate prevented them from monetary financing and getting over the legal obstacles for the European Central Bank ... and the onus was on us to come up with alternative proposals. That was very difficult. So we wanted to have it worth ... I mean you could come up with, you could come up with a lot of alternative proposals which would be just as expensive as the promissory note. So, like, we needed an alternative proposal that would be a big gain for the Irish taxpayer on the sustainability of the debt and on the bonds. So the first shot at it was to have a bullet bond that you wouldn't have to pay for 40 years about.

Deputy Kieran O'Donnell: Yes. Interest would come back to the State circle.

Deputy Michael Noonan: Yes. And because, you know, the Irish paper in the Central Bank, you have to pay interest on it. The Exchequer has to pay interest on it.

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: But it then goes into the Central Bank books-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: -----as surplus profit, so the following year it comes back to the Exchequer. So the effective rate is very, very low, and that is where the big gain is for us.

Deputy Kieran O'Donnell: And how long do you anticipate, Minister, that-----

Deputy Michael Noonan: Well, I'll come to that now. What happened after that then was the NTMA advised that the 40-year bond would be a good idea. And when we put it to Frankfurt, they wouldn't entertain it, and then there was a deadlock. And then somebody suggested to me that there was a different way of doing it if we had a series of bonds of different duration-----

Deputy Kieran O'Donnell: Maturities.

Deputy Michael Noonan: Part of the package were ... some of them run out to 40 years, like, and others are early and have to be redeemed earlier. Now, there was a schedule drawn up then-----

Deputy Kieran O'Donnell: Yes, that's all in the schedule.

Deputy Michael Noonan: -----of when they have to go to the market and this was the arrangement as long as there was some kind of risk to financial stability. Now every so often the Central Bank revisits it and says, you know, "You'll have to pay these off sooner." But what we have paid off almost completely now, and this is subject to checking-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: Do you remember the year that we had big political controversy about the €3.1 billion in March and we got Bank of Ireland-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: -----to repo it for us? That's almost unwound at this stage, I understand.

Deputy Kieran O'Donnell: Fine.

Deputy Michael Noonan: But it's a function of the bank.

Deputy Kieran O'Donnell: But the main programmes-----

Deputy Michael Noonan: The last time there was pressure put on me by Frankfurt was when we decided to repay the IMF.

Deputy Kieran O'Donnell: Fine.

Deputy Michael Noonan: They said, "You're repaying the IMF and we did this for you, why don't you repay us?" I said, "Because we gain a lot of money if we repay the IMF; we only get grief if we repay you." But they didn't like it, you know. But they revisit every so often, so I can't give you an absolute guarantee that they won't change the schedule.

Deputy Kieran O'Donnell: How far advanced is the schedule at this time, Minister?

Deputy Michael Noonan: There's minor-----

Chairman: Thanks Deputy.

Deputy Michael Noonan: There's minor changes in it. I can get it for you but I would say ... I mean it's ... I have to ask for the information because it's the Central Bank function. I would think they have maybe paid back €0.75 billion ahead of schedule. It's small anyway, you know.

Deputy Kieran O'Donnell: A bit like Deputy McGrath, it was a long answer but worth waiting for. Minister, can I deal with the whole issue ... Professor Honohan, when he was before us, he stated that I think it's remarkable ... punishment for bankers ... it's remarkable, first of all, how long it takes, how heavy the procedures are and how light the consequences. Do you believe that the legal ... I suppose, the legislation available to the courts is sufficiently strong enough to deal with rogue bankers in Ireland or not?

Chairman: You've to be more careful than that even.

Deputy Michael Noonan: You're asking me a criminal law question.

Deputy Kieran O'Donnell: Well, I suppose I'm asking a question that-----

Deputy Michael Noonan: Where I have the expertise at all, it's not in criminal law, you know. I mean, my personal opinion - but you're not to take this as a-----

Deputy Kieran O'Donnell: Yes.

Deputy Michael Noonan: -----as an authoritative view - I think it probably is but I think

the process is slow. But I can understand why the process is slow because people are afraid, who are organising the prosecutions, of making a mistake in process and someone will walk out the door who quite clearly shouldn't walk out the door.

Deputy Kieran O'Donnell: The final question I have for you, Minister, is ... we'd Mr. Chopra in earlier this morning and he spoke about issues that he felt could have been done-----

Chairman: You're out of time now Deputy.

Deputy Kieran O'Donnell: Yes, it's a final question, yes. Felt could have been done at European level. And the issue was around the tracker mortgages. He was looking to see ... how he felt Europe should be doing more to finance them. So, I suppose, the two ... they're a related question.

Chairman: Only one question now, Deputy, get it out.

Deputy Kieran O'Donnell: No, but they're both the one question.

Chairman: Okay.

Deputy Kieran O'Donnell: The tracker mortgages ... it's the end, Chairman.

Chairman: I know it is and I have to be consistent.

Deputy Kieran O'Donnell: The tracker mortgages are putting pressure on the Irish banks. At the same time, the standard rate ... for standard variable rate holders is excessively high. So do you feel that Europe has done enough in terms of assisting to unwind the tracker mortgage, the cost of those mortgages? And you were reported in the media recently speaking about talking ... discussions with the banks in terms of dealing with the standard variable rate for home owners with mortgages-----

Chairman: Thanks Deputy. Minister, if you could be as brief?

Deputy Michael Noonan: Yes, I mean, the trackers have been a problem all the time and I haven't come up with any solution for the trackers. I suppose, for the people who have tracker mortgages, the assurance is that they hold their trackers at the interest rates that was agreed at the time. I mean, I saw proposals that ... saying we should bring down the variable and increase the trackers but, you know, try that out when you're door-knocking with people who have tracker mortgages. So that wasn't a solution.

In John Moran's time as Secretary General, we had a proposal but it didn't go very far that the Central Bank would agree that we'd park the trackers in the Irish Central Bank and take them off the banks' balance sheets so that they wouldn't have the effect on profitability that you reference. And, as a consequence, charges across the spectrum then could be reduced, you know. But again, monetary financing, and they wouldn't agree it, so it didn't run.

Chairman: Thank you very much.

Deputy Kieran O'Donnell: Standard rate-----

Chairman: No, Deputy, you're finished. Deputy, you're finished.

Deputy Kieran O'Donnell: With a standard rate variable mortgage, Minister.

Deputy Michael Noonan: Well, I suppose the good news over the summer was that AIB took another quarter off it. They're offering a standard rate now of 3.65%, and they are going into the market, they tell me, in a strong advertising campaign to try and get people to switch.

Chairman: All that information is out in the public domain. Can we move on to Deputy Murphy please, and I want wrap things up. Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you Minister. I'll be brief, because a lot of the areas have been covered. I just want to clarify a couple of issues, if I may? The first is in relation to November 2010 and the memorandum of understanding that's agreed with the troika, and you are being briefed by the IMF at the time as the Opposition spokesperson from Fine Gael. Did the IMF, or representatives of the IMF, tell you that the possibility of burden sharing remained open, because it wasn't in the MOU?

Deputy Michael Noonan: Well, first of all, they didn't brief me personally. They came and they briefed the Fine Gael Front Bench.

Deputy Eoghan Murphy: Okay.

Deputy Michael Noonan: That was the way it was done. I can't recall whether there was a discussion on burden sharing or not. Our policy position was clear. We had said all the time that we believed that not only subordinated bonds should be haircut but the senior bonds should also be involved in burden sharing, provided that the Central Bank agreed with our position. But nobody said you shouldn't follow that policy line.

Deputy Eoghan Murphy: In terms of then, when you come into government, what prompts the change in official thinking about the possibility of the ECB agreeing to burden sharing when it comes to March 2011?

Deputy Michael Noonan: Well, I think we were, I was, you know, we were only three weeks in office, so it was driven at that stage by the political side through the ... I mean, it was a commitment we made in the election manifesto. It was reflected in the programme for Government, always with the assent of the European Central Bank and, in the early days in government, we said if we're recapitalising the banks, we'll implement this. But it didn't ... I'm saying the policy driver didn't come from officials in the Department of Finance, it came from Cabinet and the parliamentary party, because the election was just over and we had made this commitment.

Deputy Eoghan Murphy: And reflected in the programme for Government with the assent of the European Central Bank.

Deputy Michael Noonan: Or words to that effect.

Deputy Eoghan Murphy: Okay.

Deputy Michael Noonan: I don't know how it was phrased, but that's what the meaning of it was.

Deputy Eoghan Murphy: But does that mean that the European Central Bank had to sign off on our programme for Government?

Deputy Michael Noonan: Oh no.

Deputy Eoghan Murphy: No. Can you just clarify what you're saying there in terms of-----

Deputy Michael Noonan: What I'm saying is that all the way through, with statements I made before the election, during the election and after the election and in the Fine Gael programme for Government, and in the programme for Government, Fine Gael said that we would impose burden sharing on senior bondholders and change the law to do so if the Central Bank consented to us doing it.

Deputy Eoghan Murphy: I understand that now, okay. At the same time, in March, you are having discussions with the Commission as well about the interest rate. Is that correct? The interest rate on the loans from the troika and the possibility of reducing them. We have it in evidence from Kevin Cardiff that-----

Deputy Michael Noonan: Well, look, we came into government on 9 March, you know. You were involved, first of all, in getting a private secretary and sorting yourself out, finding your way around the place, and you're involved with the troika and you're involved with the Europeans, so the priority was sorting out the banks. We didn't have a banking system, really, when we went into government, and three weeks later we were doing it. So, I can't tell you that I started negotiating on interest rates before 31 March or after 31 March, but we got down to it pretty quickly.

Deputy Eoghan Murphy: Why I'm asking the question is, we have it in evidence from Kevin Cardiff that there was discussions with the Commission and they were in favour of reducing the interest rate at that time - it was just after the election - but that that was stopped because France and Germany reintroduced the idea of the corporate tax rate and because things weren't calm enough to pursue the interest rate.

Deputy Michael Noonan: Yes.

Deputy Eoghan Murphy: Is that correct? Is that what kept us from negotiating the rate earlier?

Deputy Michael Noonan: Well, you see, the Commission wasn't the decision maker because, as you heard in evidence already today, these were issues ... there were intergovernmental issues. So the interest rate issue was an intergovernmental issue, because the creditors were the sovereigns of Europe. And it wasn't the Commission. Olli Rehn was in favour of reduced interest rates all the time, and he was the Commissioner. But that made no difference to me, because it was being opposed vigorously by certain finance Minister colleagues across the table, and it needed a decision. On the corporate tax, I understand that the first meeting the Taoiseach went to, that a lot of pressure was put on him by Chancellor Merkel and President Hollande on corporate tax rates, but he stood his ground and didn't agree. But I never heard there was a linkage to interest rate, because we wouldn't have ... I wouldn't have activated the interest rate campaign at that stage. I mean that must have been mid-March. You can check whenever the Council meeting was. It was at his first Council meeting.

Deputy Eoghan Murphy: Okay, thank you. Moving forward to 2012, and there's a change at the top of the ECB, and you led a delegation from here in the summer of 2012 to meet the new president, Mario Draghi. I was just wondering, the purpose of that meeting, was it just a formality or was this the first stage in addressing the promissory notes?

Deputy Michael Noonan: What's the date?

Deputy Eoghan Murphy: It was the summer of 2012. I don't know the exact date, sorry. I think it was July though.

Deputy Michael Noonan: Yes, it would have been a variety of issues. It would be interest rates. It would have been promissory notes, certainly, at that stage. We'd have started it at that stage. But, I mean, the governor of the European Central Bank usually attends Eurogroup meetings and ECOFIN meetings, so I'd be meeting him twice a month anyway, and I've had several conversations with him on the margins of meetings and, you know, I'm looking for something and he's trying to be helpful and saying, "Sorry, we can't do that for you". He was more amenable to our argument than Mr. Trichet was.

Deputy Eoghan Murphy: So, it was a significant change then, in terms of the new president coming into the ECB, in terms of what that meant for Ireland being able to achieve what it wanted to achieve with the various different financial measures.

Deputy Michael Noonan: That was certainly part of the reason. Another part of the reason was that they were getting to know us in Europe at that stage, and they knew we weren't some kind of bandit government and that, you know, we were going to work programme if we got it renegotiated. And a level of trust had begun to build up and as the trust built up, they were prepared to make concessions to us. So, I'm not too sure. I wouldn't say it was all because of the change of central bank governor.

Deputy Eoghan Murphy: Okay.

Deputy Michael Noonan: But, certainly, I found Mr. Draghi helpful all the way through.

Deputy Eoghan Murphy: Okay. Thank you. And to my final questions in relation to the Wright report and the Honohan report. Both reports were negative in different ways about the Department of Finance, and alluded to a particular type of culture or a lack of rigour in certain areas. Are you worried about the Department slipping back from some of the new practices that have been introduced? I ask this in the context of the evidence from Mr. Aynsley, not talking about anything specific in relation to the IBRC, but just some of the comments that were made about the lack of expertise in the Department regarding bank board composition, a lack of banking expertise in the Department of Finance:

The authorities are stuck in their old ways. They do not recognise or understand conflicts of interest.

And he was quoting his own CFO in that last comment. When you heard those comments, or when you read about them, did it worry you about what might be happening in the Department or what might have changed after the Wright report was recommended and implemented?

Deputy Michael Noonan: Well, no. I read the Wright report and I met Mr. Wright when he was over. I think he spoke to the finance committee and I had a conversation with him. He told me he was happy with the progress that was made in the Department of Finance in implementing the recommendations that he made and I think he spoke in similar terms at the finance committee. I didn't read the minutes of that. I don't see a possibility of ... things have been changed systemically in the Department of Finance and, you know, let Mr. Aynsley have his say. I'm not going to contradict him here. He said what he said.

Deputy Eoghan Murphy: Okay. Thank you. Thank you, Chairman.

Chairman: Thank you very much. I am going to move to wrap things up. I just have two questions for you. We'll move on to some closing remarks after that and then, prior to that, I'll bring in the two leads. If I could just deal with one issue in regard to the sort of legacy issues at the moment and NAMA and debt, Minister Noonan, that NAMA took on board one third of all property related debt. As a result, a substantial level of impaired property loans still remained on the balance sheets of AIB, Bank of Ireland, Permanent TSB, I think with something like €42.3 billion of impaired loans and impairment amounts to approximately, I think at present, €16 billion remaining at the end of 2013. Then we have the situation where the State, basically, still *de facto* owns AIB and Permanent TSB. How does the Government ensure that these difficult loans are dealt with appropriately and that there is no further substantial losses arising from these as the Irish citizenry tries to get its money back from these banks?

Deputy Michael Noonan: NAMA was set up under statute by the previous Government and the express purpose of putting it in place was to clean the banks' balance sheets by taking over the impaired loans that you referred to and they, you know, have a particular funding model. And they started pretty quickly then to dispose of loans and to get a return for the Irish taxpayer. I think they sequenced it because the Irish property market was dead in the water. They began to sell some of the London book first and they sold that successfully and then they progressed to Ireland. So, in terms of the valuations which were put on the loans when NAMA acquired them, they have been quite successful and they have paid back a lot of the debt now. The IBRC provision - when we liquidated to transfer anything that they couldn't dispose of to NAMA - will not have to be exercised because IBRC have realised sufficient funding to pay off all the secured creditors that they have. So, I don't think ... I mean, there was a time when the rating agencies were marking down Ireland to almost junk status because there was a story around, particularly in London, that there was a big black hole going to emerge in NAMA and there was another big black hole going to emerge in IBRC and this was believed. But as soon as we got sufficient evidence to show that there was no black hole, but that NAMA within its legal mandate would show a profit and IBRC within its legal mandate would show a profit, this was a big relief on the markets and it was a big relief to NTMA in funding Irish debt. So, this morning now, the NTMA got €1 billion of 15-year money for 1.85% and with the volatility in the markets at the present, that's a very low price for 15-year money.

Chairman: Can I just touch on one other issue as well? It was something at the start of the meeting with Deputy Higgins with regard to capital gains tax and also the issue of the, kind of, legacy matters arising from IBRC in that the low rate of capital gains tax between 2011 and 2014 attracted a lot of foreign buyers into the Irish property market. And we've also heard recently from Mike Aynsley and Alan Dukes of IBRC - former Anglo - that the Department of Finance asked them on numerous occasions to accelerate the disposal of assets. That happened while capital gains tax exemptions were in place. Without referring to specific transactions, can you confirm whether or not you were aware of this pressure being exerted on IBRC and, if so, can you comment on the reasons why the Department was trying to realise assets more quickly than the agreed disposal timelines, given that the substantial disadvantages that would have resulted as I've exemplified - lower capital gains tax income, substantial gains made from these purchases made between 2011 and 2014 would flow into foreign countries and lower recoveries as the market improved substantially through 2013 into 2014?

Deputy Michael Noonan: Well, when I went into government in March of 2011, IBRC was down €41 billion to the European Central Bank in ELA funding and in the proposal put forward by the previous Government the previous January, they had made allowance for €50 billion of ELA funding. So, the chairman and the chief executive of IBRC constantly talk as

if IBRC was a going concern. IBRC was a bust bank and we were getting pressure from the European Central Bank and from the troika to start paying back some of the ELA because ELA was ... by definition, it's emergency liquidity assistance and you can't be in an emergency long term. If it's an emergency liquidity assistance, they expect to get it back.

And I know that Mr. Aynsley made references to the American book. The American book was very valuable. It was dollar denominated and we needed to show progress. But I think the big misunderstanding was for some unknown reason, I think the chairman and the chief executive had an idea that they could trade Anglo Irish Bank into being a solvent bank and it was as clear as crystal that that was Mission Impossible and we had to start getting market value for certain loans and paying down ELA and that was ... I mean, I was working under much wider concerns. I can understand why a chief executive of a bank would have one view, but I was working on much wider concerns. Now, I also saw in some of the documents that Mr. Aynsley said, "Ah, we might have got 100 million more". I don't know whether he is talking dollars or euros, but we might have got 100 million less as well. The American market wasn't ... was bouncing around a bit at that stage, but it was recognised internationally as a huge successful sale and one of the first people to congratulate me and himself was Mike Aynsley on the success of the disposal of the American book.

So, you know, any time, like ... one of the big problems in disposing of assets below market value is you can always present an argument that if you only waited, you know, you'd make a fortune out of it, you know. We had it when we offered Bank of Ireland shares at 10 cents on the market and we had the great and the good telling me and going on radio programmes saying, "Ah, these are worth nothing. They're worth zero. Nobody will buy these shares", right? And then, foreign investors came in from Canada and the US and they put a big private sector investment into Bank of Ireland and then they made a lot of money out of it. And the same guys who told me that no one would buy them come back saying, "You gave them away for nothing". The same people. So, like, it is very easy be wise after the event, but we were in a dreadful stage and we had to start realising some of the assets to pay off the debt.

Chairman: A final question, Minister.

Deputy Michael Noonan: Anglo was a bust bank and that's it.

Chairman: A final question and then I'll bring in Deputy Higgins and Senator O'Keeffe. Can I ask you at this moment in time and as we start moving towards concluding these hearings and, specifically, in relation to banking supervision and financial stability and its monitoring, do you think now we are in a position to say with confidence that a situation that led up to the 2008 banking and financial crisis will never happen again?

Deputy Michael Noonan: I think the situation has improved a lot and a lot of the changes that have been made are systemic and they'll be difficult to unwind, but there is pressure to restore everything we cut and everything we changed. Now, like, if you ... if you change back to where we started, you're only going back to the causes of the problem. The other issue is in the dialogue down in Dublin Castle. Everyone around the table had plans to spend far more than we'll ever have and every ... practically every submission was for extra spending. And the problem with the public economic debate in Ireland is nobody stands up for the taxpayer. Nobody stands up for the taxpayer in this country, even the people who should stand up for the taxpayer.

Chairman: Thank you. Deputy Higgins.

Deputy Michael Noonan: Everybody comes up with new spending programmes.

Chairman: Deputy Higgins.

Deputy Joe Higgins: Mr. Noonan, two questions on different subjects. The Fine Gael manifesto - it's in your evidence book - says in 2011: "[It would] ensure that rogue bankers are pursued for their crimes and that the full rigours of the law will apply to them, and the courts [would] have the powers necessary to impose appropriate fines and jail sentences". Could you please comment on why no legislation has been forthcoming on these measures, as promised in 2011? And, secondly, do you consider that the UK senior banks' regime, which will include the threat of criminal conviction for senior executives and directors, is an appropriate model?

Deputy Michael Noonan: Well, criminal law is adequate in this country, I'm advised. Three senior bankers are now in jail and other cases are pending. So, there isn't a necessity for new law, but I think the process is slow. But that's not a matter of law.

Deputy Joe Higgins: Second question, Mr. Noonan, is on 1 December 2010. in the Dáil speaking on the troika programme you said:

There is such a thing as moral hazard. It starts with the individual management and board of directors and then it goes to the institutions. It is a principle of moral hazard in the context of liberal capitalism that if one behaves recklessly, one gets punished. One gets punished because one deserves to get punished and it is an example to everyone else in the system that if people behave recklessly, they will be punished also. The principle of moral hazard applies not only to those who invested as shareholders and lost all their shares, as happened in Anglo Irish Bank.

It ... you go on to say it also applied to others and then you say: "The only part [right ...] of moral hazard that seems not to be understood in this country is that those who lent recklessly can walk free and the taxpayers have their liabilities transferred to them." That's what you said.

This morning, Mr. Chopra, in his evidence - written evidence - was very strong on the question of those who lent recklessly and points to the IMF *ex-post* evaluation of its financial support, dated January 2015, and he concludes that "the evidence is not clear on the risks of cross border spillovers from bailing in senior bank creditors in Ireland" and, essentially - I haven't time to quote it all but I hope you will look at it or get your officials to look at it - that, in fact, there isn't a big deal about burning bank holders, that it wouldn't cause the type of contagion that was being put up by the EU institutions, essentially to frighten people, and moreover, he ... I quote from the IMF:

Moreover, even if cross border contagion risks were considered important, steps could have been taken to ring fence these through appropriate policy responses in the affected markets. This could have included supporting steps by country authorities in cases where their banks' solvency would be threatened from writing down their direct exposures to Irish senior unsecured debt

And Chopra comments, finally:

Recent academic research confirms the view that spillover risks were exaggerated. An empirical analysis of funding cost spillovers in the euro zone [... show] that contagion between most euro zone banks is limited because they have fairly weak links.

Can I put it to you, in conclusion, Mr. Noonan, that ... does it look likely from this that there were bogus scares put out there by EU institutions to frighten this country into not burning bank holders and that the IMF now says that these were bogus and that, in fact, that should have been done and if it was done, wouldn't that have coincided with what you said about moral hazard five years ago?

Deputy Michael Noonan: Yes, well, first of all, I'm still of the same view - as the view you quoted - that I expressed in December of 2010 and I did pursue it to the point where, as I outlined this morning, I came to the view that the risks that were put to me exceeded the possible gain we would get by burning bondholders. But I had gone so far as drafting a speech where I was prepared to bring in legislation to allow the Irish authorities to do it. Secondly, I pursued it relentlessly in Brussels, to the point where, when Ireland had the Presidency - the last time we had it - I chaired the meetings that brought in banking union and brought in a banking resolution regime which now bails in not only the shareholders which you referenced, not only junior bondholders, but also senior bondholders of different categories.

Deputy Joe Higgins: But is it academic if-----

Deputy Michael Noonan: No, it's not academic, you know. We will-----

Deputy Joe Higgins: -----if the EU institutions forbid it and then you go along with that, is it not academic?

Deputy Michael Noonan: No, but everyone is on side now. It's European policy and it's a matter of European law now to ... in future problems with banks across the banking union, bank ... senior bondholders will be bailed in. So I'm consistent and it's my policy position and we've succeeded in making it European law.

On the Ajai Chopra statement, first of all, I'd like to say that he was certainly, in my view, one of the most helpful members of the troika. He was ... he was very, very assiduous in trying to help Ireland and very good and I've great admiration for him. His presentation of the IMF having a different view from the European Central Bank is correct, at staff level, but in the end of the day, the IMF executive, under pressure, in my view, from the Treasury in the United States, did not follow the policy and support Ireland for burning bondholders. And the reason wasn't fear of contagion, the reason was what's recited in Tim Geithner's autobiography, that it would affect the liquidity of the banking system in Europe. And maybe he was right, maybe he was wrong, but there was a flow out of funds from Europe and he said "Burn the bondholders: these are the people you need to put liquidity back and this will be magnified." And that was his position and he was very, very influential, as the Americans are over the IMF, and because of the dollar being a reserve currency and whatnot. So it's not academic. Things have evolved over time. It's now a matter of European law that if a bank goes bust anywhere in the eurozone, in the cascade of "bail-inable" assets, senior bondholders is ... have ... has a high rating.

Deputy Joe Higgins: Thank you, Minister.

Chairman: Senator O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair. Two small questions, Mr. Noonan. Will we get to publish our report before the election? No, I'm just kidding. I'm just kidding.

Deputy Michael Noonan: The question is beyond my pay scale, Chairman.

Senator Susan O’Keeffe: I just wanted to check ... when the promissory notes were exchanged for the long-term bonds, was that, effectively, taking the retrospective recapitalisation off the table?

Deputy Michael Noonan: No, we never took the retrospective recapitalisation across the table, but when I bring it up with some of the colleagues who are helpful, they say, “But, sure, didn’t you get your deal on the promissory note.” So it certainly is an argument, but we succeeded in making it part of the regulatory ... statutory regulation governing the ESM, that the ESM may directly recapitalise banks or retroactively recapitalise banks. But it needs unanimity of the governors and it has to be done on a case-by-case basis, and we haven’t applied, but I set out in detail for-----

Senator Susan O’Keeffe: Yes, you did.

Deputy Michael Noonan: -----Deputy McGrath-----

Senator Susan O’Keeffe: Yes.

Deputy Michael Noonan: -----what the position is on that. And the alternative way of getting money back for the Irish taxpayer is to sell AIB shares, in particular, on the market, but, subsequently, Bank of Ireland ... and PTSB is becoming profitable now and it’s already valued at €1.6 billion, so there’s an asset there as well.

Senator Susan O’Keeffe: And then finally-----

Deputy Michael Noonan: But we needn’t-----

Senator Susan O’Keeffe: Sorry.

Deputy Michael Noonan: -----we needn’t do it. I think I said before that I had a colleague in Sweden who’s no longer finance minister, but he spent seven or eight years there, and he told me that in the Swedish banking crisis which was in the early ‘90s, he only sold the last tranche of shares into the market 18 months ago and they made two and half times the nominal value of what they put in.

Chairman: Senator.

Senator Susan O’Keeffe: And, finally, in evidence ... in written evidence, Kevin Cardiff talked about the additional €24 billion State injection into the banks in March 2011 - this would have been just after you came into office - and he talked about the horse-trading that went on in order to achieve that figure and he says, really, it was an increase on what the Central Bank would have been comfortable with at the time. And I’m just wondering, finally, Minister, what was your ... what figure did you hope for at that time and were you disappointed or were you satisfied with that figure?

Deputy Michael Noonan: I wouldn’t have a lot of expertise in the field now but, first of all, I needed to ensure that we didn’t have to look for extra money to do it. So it had to fall ... less than €35 billion, I think, was the issue. And the stress test figure came up with something like €16 billion or €17 billion or €18 billion, somewhere in that neighbourhood. And the authorities in Europe said “The markets will not believe that figure, so you have to go beyond that.” So it was pushed up to just over €20 billion. And then they said “We need you to put in contingent capital as well, which you’ll get back if it’s not needed.” And that’s where the CoCos came in, and that was another €3 billion, and it went up to €24 billion. But the negotiations weren’t done

by me, they were done by the Central Bank with the authorities in Frankfurt and the other interests, like the Commission. And in the end of the day, it looked reasonably prudent, and we sold shares then in Bank of Ireland on the private ... to the private sector and we discounted junior bondholders to the tune of €5.1 billion, I think it was, and it came down to something over €16 billion. The €24 billion was reduced to about €16.5 billion for that reason and we hope to get back everything, but not the Anglo Irish stuff.

Chairman: Thank you very much.

Senator Susan O’Keeffe: Thank you very much.

Chairman: Minister, is there anything else you’d like to add before I bring matters to a close?

Deputy Michael Noonan: I’d like to thank you, Chairman, and I’d like to thank all your colleagues and wish you well and ... you’ve done a great job and it’s an honour to be the last witness.

Chairman: Thank you very much. Just to ... I’d like to just thank a couple of people in closing and I certainly would like to thank what would be described as the Fourth Estate who have been with us over the course of many a hearing and many a long day and many a long evening, and for the coverage that they have obviously ... and attention that they have given to the inquiry. I was speaking to the clerk there a moment ago, and I’d say he’s only too happy to let the other clerks in the Dáil know that this room is available from now on ... having occupied and almost lived in it. And, in that regard, the team that have been on the top table as well, I probably ... in my acknowledgment of the investigations and other ... maybe didn’t give them their own due acknowledgement earlier this morning.

The committee door will be closing soon and we’ll go into our private deliberations to get to the report. And, in that regard, I’m reminded of a quote by Alexander Graham Bell, “Sometimes we stare so long at a door that is closing that we see too late a door that is opening.” Now the quote may have been made for another context but I do think it’s relevant to the work of this committee. And as we close the door on the public hearings we now open the door as we go into our final report. And in keeping with the theme of that quote it’s important that the committee in preparing its final report is not just looking at the past to learn lessons but also has a firm eye to the future in bringing forward recommendations to ensure that a crisis such as the one that we are presently examining is never revisited on the Irish people again. Thank you. With that said, I’ll now bring matters to a close. I thank the Minister for his engagement this evening. The meeting is formally adjourned and the Minister is formally excused. This concludes the public hearings of the Joint Committee of Inquiry into the Banking Crisis. The committee is adjourned *sine die*.

The joint committee adjourned at 8 p.m. *sine die*.