Tithe an Oireachtais
Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Further Clarification Statement of

David Doyle

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>
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>
> (c) to his or her legal practitioner."[1]

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[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

For attention of Mr Ciaran Lynch TD.

Dear Chairman,

I refer to the Joint Committee's recent request for comment on certain events of the 24th and 25th September 2008.

Firstly, you should note as I have stated previously that I have retained no documentation from my time as Secretary General. I assume that the Department and the Central Bank have supplied you with all documentation in accordance with your disclosure requests. I was given an opportunity by the Department to consult certain documentation in connection with your request. I have also reviewed certain Central Bank material.

The short answer to the question posed as to what was being discussed at the meeting of the 24th September is that the meeting was called to discuss the deepening liquidity crisis and to consider the options that were available to address these. This led to Merrill Lynch being formally appointed by the NTMA to advise the Government. Their formal advice was articulated over the following weekend.

The Committee might find it useful if I set out the position and some of the background in more detail. Some of the material quoted is from Central Bank Board and Regulator Board minutes**. In the event that any of this is to be published, the Committee would need to secure clearance from the Central Bank, given section 33ak legal restraints or satisfy itself that this would not present any difficulty.**

Background to the meeting of the 24th September

You will recall that increasingly in the run-up to this period there was concern, indeed alarm, amongst consumers, businesses and the financial markets generally about banks. Post the Lehman's event, the financial markets became increasingly tight with banks being pushed into overnight funding. This was occurring both internationally and in Ireland. Here, there were major liquidity drains from the Irish Financial Institutions which escalated as September progressed. [The Central Bank can supply the facts on this.]

Deposit Guarantee Scheme limit increased

The Minister for Finance on the 18th September 2008 met the Governor and Chairman of the Regulator with their senior management to review the liquidity crisis. Messrs Somers, Corrigan and McDonagh of the NTMA attended, as did Mr Cardiff and the undersigned. The Central Bank noted that liquidity was under severe strain, and there was a potentially serious crisis situation. The Governor said that there needed to be something done quickly on deposit guarantees and a further reassuring statement made on the financial sector. He said that an "all deposits" guarantee may be counterproductive. The Central Bank/Financial Regulator were not suggesting that at that point in time. The Governor recommended an increase in the Deposit Guarantee ceiling to €100,000 accompanied by an additional statement of support from the Minister. He also felt that an emergency liquidity support fund of €10 billion should be available. He said that the broader issues regarding the sector needed to be looked at over the next week or so.

Following that meeting the guarantee ceiling was increased as recommended. The following press release issued.

Government Increases Deposit Guarantee Limit to €100,000 per depositor
20th September 2008

The Government has decided to increase the statutory limit for the deposit guarantee scheme for banks and building societies from €20,000 to €100,000 per depositor per institution. The cover will apply to 100% of each individual's deposit. This guarantee level will also apply to credit union savers. Announcing the decision, the Minister for Finance, Brian Lenihan TD, said "I want it to be known that the Government is confident about the strength and resilience of the Irish financial system. The Government is committed to the stability of our financial system, so that money placed with an Irish credit institution would not be at risk. As I said yesterday, the Irish Government wants to protect the whole financial system, secure its stability and ensure that all deposits in Irish financial institutions are safe."

The Minister added "the Central Bank and Financial Regulator have stressed the soundness and stability of the Irish financial system. This measure provides additional reassurance to depositors in Ireland that their savings are safe. The new guarantee level is now among the highest in the EU."

The Minister also commented that notwithstanding the uncertainty caused by the turbulence in international financial markets over the last week, it is encouraging that the banks have retained the confidence of their customers.

This measure has been under consideration for some time, and the Minister believes that this is the appropriate time to make the announcement.

End

As previously indicated in my evidence and submission, the upshot of this increase was that the ordinary consumer was, in general, reassured, but major deposit makers and money markets were not. Liquidity outflows continued.

Meeting Central Bank Board on the 21st September

A meeting of the Central Bank Board on the 21st September was briefed by the Governor and Chairman of the Regulator about the outcome of those consultations with the Minister and the increase in the guarantee limit. He advised the Board that he had briefed the Minister on the rapidly evolving international and domestic situation which was resulting in substantial loss of liquidity from the Irish banks and building societies. "In assessing the situation going forward, the meeting noted that if further liquidity assistance was required against collateral which was ineligible for ECB tenders, then the provision of assistance from the Banks investment portfolio and the NTMA would only buy time. **Unless the international situation were to improve and banks regained their ability**

to borrow on the money markets, the necessity of the Government giving an explicit guarantee for banking liabilities would have to be considered. Should such State assistance be required, the question of the conditionality would have to be addressed" [along] "with a strategic view for the structure of the Industry going forward."

Meeting Financial Regulator on the 23rd/24th September

A meeting of the Financial Regulatory Authority on the 23rd/24th September was advised by the CEO "that legislation prepared as a contingency for nationalisation of a bank or building society was now ready in the Department of Finance."

The minutes of that meeting also note that Goldman Sachs were looking at Irish Nationwide and PwC looking at Anglo. The view of Goldman Sachs at that point was that Nationwide's capital position might fall below its 11% requirement but it "will probably not fall below the 8% minimum capital requirement." PwC assessment at that point on Anglo was that "on a going concern basis, Anglo Irish Bank has net assets that could absorb likely provisions within its current regulatory capital levels." Mr Horan of the Financial Regulator said that "lack of access to the debt markets is pushing all the banks, particularly Anglo Irish Bank, more and more towards overnight funding."

The minutes of the meeting note Tony Grimes, the Director General of the Central Bank, reporting that he had been advised by the Governor that the Secretary General of the Department of Finance had requested a formal assessment on Friday 26th September. [The writer recalls making that request which he intended would set out the formal analysis of the Central Bank and Regulator of emerging problems, any proactive measures they or the ECB intended to take, and spell out recommended action. That formal assessment was never submitted. Given the rapidly escalating difficulties, the Minister appointed Merrill Lynch as adviser on the issues. A proactive response from the ECB did not emerge in September 2008.]

Meeting in Department of Finance on the 24th September 2008

In the days that followed the Board meeting of 21 September, concerns about the financial markets and liquidity position of the domestic financial institutions were heightened. On the 24th September 2008, a meeting involving the Taoiseach, Minister for Finance, Attorney General, Secretary General to the Government, Governor of the Central Bank, Director General of the Central Bank, Chairman of the Regulator, Chief Executive of the Regulator, senior Department of Finance officials, Dr Somers and Mr Corrigan of the NTMA, Merrill Lynch, PwC and Arthur Cox took place to review the deepening financial position.

Various options were discussed; ordinary liquidity support, Special Liquidity type scheme (SLS), guarantees, Nationalisation, bad bank approach.

Mr Cardiff recorded a summary typed note of the meeting that day and is best placed to clarify the reference in that note to a subsequent meeting taking place. Subject to Mr Cardiff's input, the writer interprets the note as saying firstly that Senior officials, lawyers, accountants etc. heard a number of options being spelled out as noted above, and secondly that the Political figures - Taoiseach, Minister, Attorney General - joined the group later to review the situation. The minute records Mr Cardiff as presenting the issues and options outlined at the previous meeting and that he underlined the seriousness of the situation.

It was agreed that work would continue on the intervention possibilities outlined and on preparing the relevant legislation.

[If the Committee has not already done so, Mr Cardiff's comment on the question posed to me might be sought.]

Central Bank Board meeting on the 25th September

Following the meeting on the 24th, a meeting of the Central Bank Board took place on the 25th September. It is useful to note what the minutes record on this issue.

"The Governor and Chairman of the Authority briefed the meeting on the ongoing discussions with the Banks and the Department of Finance regarding the liquidity position of the Irish banks and policy options to be considered if the position continued to deteriorate. The Minister for Finance had convened a meeting on Wednesday 24th September attended by the Central Bank, the Financial Regulator, the NTMA and the Department of Finance. The Governor had also met with the Minister for Finance and the Taoiseach. The outcome of these meetings was that the Government wanted policy options for the future of the financial sector to be developed and refined as a matter of urgency over the weekend for consideration by the Cabinet at the beginning of the following week. It had been agreed that the resources of the Central Bank and the Financial Regulator departments would be committed to complete this work together with the Department of Finance as an urgent priority over the weekend."

Regarding the last reference, my recollection is that contact was maintained with all parties by Mr Cardiff and the NTMA and Merrill Lynch which led to the articulation of the options to address the situation in their final document dated the 28th/ or 29th September.

The writer has in earlier submissions and evidence addressed those options.

The minutes of the 25th September meeting went on to record "The meeting noted that Anglo was facing the most acute liquidity difficulties of the banks. However the position of the other Irish Banks was also deteriorating and if the liquidity situation did not improve, the issue for the Authorities would be how to address the whole Irish Financial system. The Governor was keeping in close contact with the ECB and had discussed with President Trichet the difficult situation in Ireland and asked to be kept informed of developments in other countries." [The writer would note that he is not aware that any response in terms of specific interventions from the European monetary authorities emerged over the following weekend, but that the clear instruction was that the Irish Authorities had to stand behind the banks (and not allow a failure). It was not until the emergency Heads of Government meeting in Paris some weeks later that a co-ordinated response to the situation was articulated.]

The minutes went on to say that "**a key policy issue for the weekend was whether or not the Government should issue a formal guarantee for the liabilities of the six domestically owned credit institutions.** If a decision were to be made in this regard, the Government would require the formal advice of the Central Bank and the Financial Regulator on the necessity of such a measure and its impact. **A possible alternative would be for the State to issue Government Bonds** to the credit institution in return for assets but this option could have very significant implications for the credit rating of Irish Government debt. In discussing the option of a Government Guarantee the meeting noted that the market would have to be convinced of the credibility of the Guarantee. There was also a likelihood of a legal challenge on competition grounds if it was confined to the Domestic credit institutions. The meeting agreed that the issue of an explicit Government Guarantee supported by a willingness to supply additional funding , if necessary, warranted detailed consideration. In this context however, it would be necessary to identify a viable long-term strategy for the industry and pursue this objective vigorously."

The minutes went on to state that "**The Governor advised the meeting that an explicit Guarantee from the State for the over €400 billion liabilities of the banks and building societies was not something that he would have favoured up to now but, in the evolving situation it required serious consideration."**

The question of a guarantee was **<u>one</u>** of the options which were cleared for examination at the meeting of 24th referenced above.

No conclusions had been reached in the Department of Finance at that point as to which of the options or combination of options cleared for examination on the 24th would be recommended . The work on articulating and examining the options had not at that point been concluded.

<u>26th September 2008</u>

The Department advised the NTMA that the Minister agreed that Merrill Lynch be formally appointed to advise the Government on the options to address the emerging financial crisis. A draft preliminary analysis presented to the NTMA that day addressed a number of key options, including an SLS scheme, Good Bank/Bad Bank, Protective Custody, Guarantee for six banks and liquidation. This was discussed at a meeting in the Department chaired by the Minister. He instructed that the options be articulated clearly over the weekend so as to be ready to present to Government.

The final version of the Merrill Lynch advice dated the 29th September has been articulated elsewhere and addressed in my original submission and evidence.

The situation regarding liquidity and financial markets deteriorated very significantly on the 29th September and assumed the crisis proportions which the Government had to address to prevent the most dire economic, financial , fiscal and social consequences of a banking sector collapse.

Yours sincerely,

David Doyle 23 October 2015