



Tithe an
Oireachtais
Houses of the
Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Clarification Statement of

Brendan McDonagh

Strictly Private & Confidential

As indicated on its cover page, the document(s) contained within are confidential unless and until the Joint Committee decides otherwise including where the Joint Committee publishes such document(s). For the avoidance of doubt, "documents" include witness statements in this context. Further to section 37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 ("the Act"), while the documents remain confidential, you must not disclose the document(s) or divulge in any way that you have been given the document(s), other than:

- "(a) with the prior consent in writing of the committee,
- (b) to the extent necessary for the purposes of an application to the Court, or in any proceedings of the Part 2 inquiry, or
- (c) to his or her legal practitioner."¹

Serious sanctions apply for breach of this section. In particular, your attention is drawn to section 41(4) of the Act, which makes breach of section 37(1) a criminal offence.

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

22 October 2015

Mr. Ciaran Lynch,
Chairman,
Joint Committee of Inquiry into the Banking Crisis,
Leinster House,
Dublin 2.

Response to your letter dated 2 October 2015

Dear Chairman,

I set out below responses on a number of matters on which you asked me to provide a statement on a voluntary basis in your letter of 2 October 2015.

1. *INBS – NTMA Deposit placement limits – credit ratings*

Clearly any downgrade or indicated downgrade in credit rating would have a material impact on the NTMA's decision to reduce or remove a deposit placement limit with any financial institution. The Inquiry will recall that I advised that the NTMA began to reduce its deposit exposures to all financial institutions globally and domestically from August 2007.

2. *INBS possible nationalisation*

(a) Nationalisation of INBS was inevitable – reasons

Mr. Gray's evidence is his evidence and it is not for me to dispute or disagree with his statements to the Inquiry. As regards the "***extensive analysis***" Mr. Gray referred to in his evidence to the Inquiry, I am not aware of its existence. That, however, does not mean that it does not exist and I would suggest that perhaps the Department of Finance (DOF) or the Central Bank may be best placed to provide that "***extensive analysis***" to the Inquiry. The only

structured document, to my knowledge, that existed at end-September 2008 and that includes some analysis of the options is the Merrill Lynch report of 28/29 September 2008.

For my own part, I can only outline my knowledge of events as follows. From the early part of September 2008, ongoing meetings were being organised and held by the DOF, the Central Bank and the Financial Regulator. I and my senior colleagues in the NTMA were present at some but not all of those meetings. The major concern raised at these September 2008 meetings at which I was present was a liquidity run on the Irish banks and building societies as the market began to seriously question their exposures to property based lending and, in particular the exposures of INBS and Anglo Irish Bank. There was a dearth of information available or being made available by the Central Bank and the Financial Regulator at that time but the obvious issue was the increased loss of deposits and the short-term nature of the financial institutions funding. There were various work streams arising out of these September 2008 meetings. The one that had made most progress was the workstream dealing with a draft Building Society Nationalisation Bill which was being led by DOF and the Attorney General's Office (AGO). This draft Nationalisation Bill was primarily developed to enable the nationalisation of INBS as, at that stage, there were no major concerns about EBS. The NTMA provided technical input into this draft legislation that could be used if the Government so decided. I believe that the Inquiry has been given copies of this draft legislation by DOF.

(b) Evidence to support my view

Apart from the draft Building Society Nationalisation Bill, there is also some detail in the Merrill Lynch report dated 28/29 September 2008 about the State taking INBS into protective custody due to market concerns about monoline business models and the contagion effect on other financial institutions. The view was that, while daily deposit outflows had slowed down somewhat in late September 2008, by December 2008 when INBS had a €630m Medium Term Note repayment due, the State would likely have to take action to prevent INBS from running out of liquidity even if the lower run rate of deposit loss during the last weeks of September 2008 were to be sustained all the way to the end of 2008.

(c) System wide guarantee being preferred option

As I advised the Inquiry in April of this year, I was not aware of any substantive discussion about a system-wide guarantee being the preferred option prior to the decision being taken on the night/early morning of 29/30 September 2008. It was one of a range of options being considered and that is set out in the Merrill Lynch report of 28/29 September 2008 but it was by no means the preferred option in any discussions during that month that I was aware of. I note Mr. Gray's evidence that this was the preferred option of the Central Bank and the Board of the Financial Regulator arising out of their Board meeting on Thursday, 25 September 2008. If that was the case then nobody in the Central Bank, the Regulator or the DOF advised me of that preferred option decision. Of course I would accept that that was their prerogative to not disclose that crucial information to me or to my NTMA colleagues

but, as one of the relatively few officials within the system who was trying to deal with the emerging crisis, it would not be an unreasonable expectation to have been informed.

The Inquiry is aware of an email from Mr. Beausang to me around lunchtime on Friday 26 September 2008 about the DOF Secretary General's discussion about a system-wide guarantee and my response that day advising him of likely market reaction and the effect on the sovereign – there was no follow-up to my response.

I also note Mr. Cardiff's evidence to the Banking Inquiry where he also was under the impression that a range of options were to be considered when he attended the meeting with the Taoiseach, Minister for Finance, Governor of the Central Bank and others on the evening of Monday 29 September 2008. Mr Cardiff has also stated in his evidence that a decision to pursue the Blanket Guarantee emerged as the preferred option early on in that discussion. As I advised the Inquiry in April and July, I was not party to that meeting (I was in an adjoining meeting room) and I found out about that Blanket Guarantee decision in the early morning of 30 September after the decision had been made.

3. Meetings of 24 September 2008

I did not attend the meetings of 24 September 2008 as I was out of the office on that day. I understand that Dr. Somers, the CEO of NTMA and John Corrigan, Director of the NPRF, may have represented the NTMA at those meetings. I have no information available to me about what was discussed at those meetings other than what has emerged as part of the evidence given by other participants to the Inquiry.

Yours sincerely,



Brendan McDonagh