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Joint Committee of Inquiry into the Banking Crisis

Clarification Statement of

Alan Gray

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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

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

Cc. Roisin Greene

Confidential

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Dear Chairman,

Thank you for your letter requesting me to comment on a voluntary basis on certain matters. I outline below a number of points which may be helpful.

Issue of Whether there is Contradicting Evidence

1. It does not appear to me from the material you have sent me that there is necessarily any conflict in evidence on the development of the decision to the issue of a full guarantee between my testimony and the evidence of Mr. Kevin Cardiff for a number of reasons including the following:
 - The work on legislation to nationalise of a financial institution may have continued in order to give options to the Government even though this was not an option presented to the Board of the Central Bank.
 - It is also possible that following discussions by the Department of Finance with the banks or others subsequent to the Central Bank board meeting that new options were being evaluated.
 - It is also possible that work on legislation to nationalise a bank was continued in order to have the instruments available if such a course of action was subsequently seen as necessary for the restructuring of the sector.

When was a System Wide Guarantee First Considered as the Main Option

2. On the issue of when a system wide guarantee started to be considered as the main option, as stated in my evidence it was presented to the Board of the Central Bank on the 25th September as the main option at that stage. When the decision was made to present this proposal as the main option for consideration to the Central Bank board is not something which I have information on. However as indicated below it is clear that extensive discussions of this had taken place previously.

Analysis of Option to Provide a Full Guarantee

3. The Board of the Central Bank on 25th September were informed that the option to provide a full guarantee for consideration by the Central Bank board arose following previous analysis and discussions. This included discussions by the Central Bank / the Financial Regulator and by the Department of Finance and external advisors.
4. The previous consideration of options had led to a meeting on 24th September called by the Minister for Finance and involving the Central Bank, the Financial Regulator, the NTMA and external advisors. The outcome of the discussion and analysis was that an emergency Central Bank / IFSRA board meeting was called on the 25th September. It was indicated to the Board that the outcome of the analysis was that a key policy option which would be considered by the Government the following weekend was whether to guarantee all six financial institutions. It was also indicated that if this decision was made the Government would require the formal advice of the Central Bank on this issue.
5. Extracts from the Central Bank Board meeting on Thursday 25th September 2008 are presented below and summarise some of the analysis and discussions which previously took place on this option.

“The Minister for Finance had convened a meeting on Wednesday, 24 September, attended by the Central Bank, the Financial Regulator, the NTMA and the Department of Finance. 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.

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.”

6. The minutes of the Central Bank board meeting confirm that the option of a nationalisation of a bank to address of the liquidity position was not presented. The only other option discussed was Government Bonds for credit institutions¹. This is reflected in the extracts from the minutes below.

“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.”

¹ The board of the Central Bank was aware that legislation on Nationalisation was progressing as an option to deal with any financial institution which became insolvent and my memory is that the focus was on Irish Nationwide Building Society.

7. It was also made clear at the meeting that the Central Bank officials had previously analysed the option of an explicit guarantee but that while previously this was not favoured, arising from the evolving position up to 25th September this view had changed. Explicitly the minutes note that:

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

8. The Central Bank board were informed that the options being considered had been the subject of on-going discussions with the banks and the Department of Finance. The board were also informed that the option of a full guarantee had previously been discussed and analysed with some of the banks and that two of the major banks had been against this option but that these views may have changed. Specifically the minutes noted.

“The Governor and the Chairman of the Authority briefed the meeting on the ongoing discussions with the banks and the Department of Finance regarding the liquidity position of the Irish bank and policy options to be considered if the position continued to deteriorate.”

Referring to the option of the full guarantee the minutes noted that:

In assessing this option, there would be a need to talk to the two major banks, AIB and Bank of Ireland, who to date had been negative on such a proposal but their views in this regard might be changing in view of the increasing liquidity pressure on them as well.”

Evidence on Detail of Guarantee vis-a-vis a Potential Nationalisation of a Bank

9. I have no information on what level of analysis was undertaken of a possible nationalisation as I was not a member of the Domestic Steering Group. I did not have access to reports / presentations from Department of Finance advisors and did not attend the crisis resolution meetings at the Department of Finance. In my opinion the key issues in a potential nationalisation at that time would firstly be what would be the likely impact on immediate public confidence in the banking sector and would it increase or reduce the possibility of a run on the banks. I have no information on whether this was analysed or not and at what level of detail. A second key question would have likely been have what would be the exposure to the state arising from nationalisation. I understand from information issued publically as part of Mr. Cardiff’s Banking Inquiry statement that due diligence work continued on the nationalisation option until early 2009. Specifically I understand that Mr. Cardiff’s evidence indicated that the due diligence reports were not ready until around the second week of January 2009 and that this might have affected the decision to nationalise.

Attendance at Crisis Resolution Options Meeting

10. As a non-executive director of the Central Bank and as an independent economist I was not an employee of the Government or the Department of Finance or the NTMA or the Central Bank. I was also not employed as an advisor to the Department of Finance. I therefore did not attend any crisis resolution meetings other than Central Bank /IFSRA Board Meetings.

Yours sincerely,



Alan W Gray
Chairman