HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 30 Aibreán 2015

Thursday, 30 April 2015

The Committee met at 9 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.

Nexus Phase

Bank of Ireland - Mr. Brian Goggin

Chairman: So with members' permission, we'll go into public session. Is that agreed? Agreed. As we have a quorum, the Joint Committee of Inquiry into the Banking Crisis is now in public session. I ask members and those in the public Gallery to ensure that their mobile phone and devices are switched off.

This morning's session is a public hearing with Mr. Brian Goggin, chief executive officer, Bank of Ireland. I would like to welcome everyone to the 22nd public hearing of the Joint Committee of Inquiry into the Banking Crisis. This morning we will hear from Mr. Brian Goggin, former group chief executive at Bank of Ireland. Mr. Goggin joined Bank of Ireland in 1969 and served in a variety of senior management positions within the Bank of Ireland group in the United States, Britain, and Ireland. Mr. Goggin served as chief executive, corporate and treasury, and chief executive, wholesale financial services. He also served as chief executive officer at Bank of Ireland asset management services. From June 2004 to February 2009, Mr. Goggin served as group chief executive officer at Bank of Ireland. Mr. Goggin, you're very welcome to the proceedings this morning.

Mr. Brian Goggin: Thanks.

Chairman: Before I begin, I just wish to advise you that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given and I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry, which overlap with the subject matter of the inquiry. 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 of the inquiry we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, those documents must be displayed on the ... or will be displayed on the screens to your left and right and members of the public and journalists are reminded that those documents are confidential and should not publish any of the documents so displayed. The witness has been directed to attend the meeting of the Joint Committee of Inquiry into the Banking Crisis and you've been furnished with booklets of core documents. These are before the committee and will be relied upon in question and form part of the evidence of the inquiry. So if I can now ask the clerk to administer the oath please.

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

Mr. Brian Goggin, former Group Chief Executive, Bank of Ireland.

Chairman: So once again, thank you Mr. Goggin for being here this morning and if I can ask you to make your opening remarks please.

Mr. Brian Goggin: Thank you Chairman.

Good morning Chairman, members of the joint committee. I welcome this opportunity to appear before the inquiry and I will, of course, be as helpful as I can to assist you in your work. As you are aware, I have already submitted a witness statement, which addresses the lines of inquiry as requested by you. I will not repeat or summarise my witness statement here, but I will make some short introductory remarks.

I spent just short of 40 years at Bank of Ireland. I was group chief executive for the last of those 40 years until my retirement in 2009. My lifetime career covered both retail and wholesale banking, and I held senior management positions with the group in the US, the UK and in Ireland. During my time with Bank of Ireland, I always endeavoured to do my job to the very best of my ability in the interest of the bank and in the interests of all of its stakeholders.

As you will be aware, Bank of Ireland is a long established entity, which has played an important role in the Irish economy since it opened its doors in 1783. Bank of Ireland has, down through the years, fostered a culture which is based on sound judgment and prudent decision-making. To put it in simple terms, Bank of Ireland has a more conservative approach to banking than many of its peers. This conservative philosophy continued, notwithstanding the significant growth that occurred during the period from 2000 onwards. Rolling five year strategies were adopted by senior management and the board in 2001, 2002, 2003 and 2004. Loan book growth in each of the markets in which we operated was an integral element of strategy throughout this period.

When I assumed the role of CEO in 2004, there were a number of factors impeding the bank's ability to achieve breakthrough in performance. As a group, Bank of Ireland had evolved as a collection of related but autonomous businesses. We found ourselves with multiple processes and systems and fragmented support infrastructure and an inability to avail of scale benefits. We were failing to adequately manage our costs, our relative financial performance was mediocre and our total shareholder return was in decline. As CEO, I was committed to addressing these factors.

In 2005-06, we undertook a new strategy development process. Over a nine month period, from September 2005, we undertook extensive work, using leading international expertise, to get a fuller understanding of the international trends driving the financial services environment and competitive scenarios. To identify implications and options for the bank, we undertook a robust process with significant involvement and challenge from the board. From this process we determined the following: (a) that the economic outlook for our key geographies would be broadly favourable with sustained GDP growth and low unemployment in our chosen markets; (b) that we would be able to support growth, including capital and liquidity through securitisation and wholesale funding; and (c) that we would build on our core capabilities in existing developed geographies, rather than new areas; and finally that we would grow the loan book in a diversified way. The board approved this strategy in July 2006.

As things transpired, the growth of Bank of Ireland's loan book during this period generally reflected economic expansion and the overall growth of the market. There was growth in each of mortgage lending, consumer lending, SME lending, corporate lending, property and construction lending. Of course, it is now obvious that the absolute amount of property and construction lending was too much. The economic shocks in Ireland and the UK exposed this vulnerability with crystal clarity. While the consequent fall out from this was considerably better than our peers, this is of cold comfort. Basel II regulatory obligations dictated that the bank undertake an internal capital adequacy assessment process to assess capital adequacy against the banks risk profile. This was undertaken in early 2007 and the results were submitted as required to the financial regulator. Bank of Ireland considered three different stress scenarios as part of this process, the first we assumed oil prices would reach $200 a barrel and remain there for an extended period. The second stress was a significant reduction in foreign direct investment in Ireland due to material changes in the corporate tax rate; and the third stress was a sudden drop of 20% in Irish and UK residential property values.

We considered these scenarios to be severe at the time, they were considered in fact to be in the one in 25 likelihood of occurring within a one year time frame. We did not believe that we were vulnerable to a shock of this extent, however we were wrong. As we know now the severity of what ultimately occur was considerably greater than this. According to the Oliver Wyman review of risk governance in Bank Of Ireland undertaken in 2009 the bank stress position was ultimately due to the combination of the severe downturn in the Irish and UK economies and the lack of liquidity in wholesale markets. There was an assumption in the 2006 strategy that Bank of Ireland's core lending business could be grown strongly and that the required funding could be sourced. As things transpired both of these assumptions were flawed, unless we had taken a very contrarian position relative to peers, Bank of Ireland was naturally exposed to the macro risks in our core markets of Ireland and the UK.

Oliver Wyman also identified three broad limitations which contributed to Bank of Ireland's stress position: one, risks in the core business and strategy may not have been fully appreciated; two, risk management and control was not geared towards understanding the aggregate risk profile; and three, the link between the overall exposure limits and the risk appetite statement was incomplete and dependent on expert judgment. While improved risk governance structures in particular the availability of consistent risk information would have helped the bank to more fully realise the amount and nature of the risk it was accumulating at an earlier stage and potentially reduce the impact of the crisis, the banks fundamental difficulties arose primarily because the strategy did not anticipate the exceptional extent of the reduction in property values combined with the contraction in wholesale money markets.

I personally deeply regret this failure and its consequences. Not withstanding the fact that the state has been repaid in full by the bank, I regret that state assistance was required to support the bank and that shareholders lost a significant proportion of their investment ion Bank of Ireland. I am very sorry that this ultimately happened on my watch. Throughout the 2000s my colleagues and I together with the board made judgments based on what we genuinely believed were solid grounds following thorough analysis and significant challenge. These judgments good or bad, were always made in a considered fashion and in good faith. It is encouraging today to see Bank of Ireland make significant progress in its own recovery and in the recovery of the Irish economy. The states support for the bank at a pivotal point in its history has been profoundly instrumental in facilitating this recovery. Thank you, Chairman.

Chairman: Thank you Mr. Goggin for your opening statement. Just before I bring in Deputy McGrath I just want to clear up one matter which arose with our engagement with Mr. Gleeson next week, he subsequently further elaborated on it. I just want to bring up Document one, Volume ... it will come up on your screen there. I just want to bring up document number, Vol. 1.

Mr. Brian Goggin: Which document is that?

Chairman: The document will come up on your screen there. It relates to Mr. Gleeson. It is AIB - C3b. It will be on your screen and it relates to Mr. Gleeson's notes on the events occurring on Monday.

Mr. Brian Goggin: Sorry Chairman, is this in my core documents?

Chairman: No. It comes back as correspondence that came back from Bank of Ireland subsequently as well in relation to it.

Mr. Brian Goggin: Okay.

Chairman: It's on the screen in front of you. Mr. Gleeson just says that, if you look at the top of the screen there, "The final point I made related to the form of the guarantee; an initial draft had been furnished (I think by Bank of Ireland) and was in a form which we thought too bare." He then goes on to say, "I mentioned that a guarantee had to read correctly to technical eyes in Foreign [Central] Banks (I mentioned Peru, Libia (sic) and Russia. We furnished a more extensive formula (which we had brought with us)." He subsequently went into his own area on this. It is just to confirm ... Deputy McGrath will go into this in detail then. Did Bank of Ireland come that evening with a prepared document or formula of words or a note as to how the guarantee would be structured?

Mr. Brian Goggin: No. Bank of Ireland did not have any document with it on that evening.

Chairman: Okay. Thank you. Deputy McGrath.

Deputy Michael McGrath: Thank you very much, Chair, and you are very welcome, Mr. Goggin. I will start by putting some stats on core booklet, BOI - Vol. 2, page 29. It is Project Atlas.

Mr. Brian Goggin: Page 29?

Deputy Michael McGrath: Yes. Vol. 2, BOI. It will come up on the screen.

Mr. Brian Goggin: I just need to get out my own here, because I have my notations, to the extent that I have any, on this document. 29 yes?

Deputy Michael McGrath: Yes. Extracts from Project Atlas. I am just really setting the scene, Mr. Goggin. The bank's property loan book was €38 billion at the end of September 2008. Of that, €13.1 billion related to land and development exposures. The top 70 land and development loans represented 39% of the total land and development loan book. My question for you is: how could a traditional conservative bank with a proud history of well over 200 years end up so exposed to one particular sector of the economy and end up having to get a bailout of €4.7 billion from the State?

Mr. Brian Goggin: Let me just put these numbers in context, Deputy. You've picked out a segment of the Bank of Ireland balance sheet here. At 30 September 2008, Bank of Ireland had total loans of €145 billion. Residential mortgages made up 44% of that; property and construction, 26%; SME and corporate lending, 25%; and consumer and other, 5%. I should also add that of the €145 billion, 43% was in Ireland, 49% was in the UK, and 8% was broadly in the rest of Europe and in the US. I don't believe that Bank of Ireland was disproportionately exposed or active in the property and construction sector. I think the issue that affected the Bank of Ireland was the absolute amount in money terms of that exposure. Bank of Ireland had quite a broadly diversified loan book in its totality.

Deputy Michael McGrath: Sure. But do you think in hindsight the bank took too much risk in terms of lending to the property and development sector?

Mr. Brian Goggin: I think you actually would need to look behind what was in property and construction. Property and construction, I think, as you indicated, was €38 billion. 65% of that was in investment property, property that was generating a contracted rental flow and, you know, stood on its own feet. Of the €38 billion, €13 billion was in land and development. And, even again, I think you'd need to look behind that. €5.4 billion of that €13 billion was in land bank. I think that is where the real problem was - in land bank, but it's interesting in terms of just looking at that aspect of the risk portfolio. Pricewaterhouse conducted a review for the Financial Regulator and it looked at the top 30 land bank transactions in the period 2005 to 2007. To reinforce Bank of Ireland's relative conservatism, Bank of Ireland's share of those 30 largest land bank transactions was 3.5%. I'm not excusing the fact that Bank of Ireland got into difficulty and required assistance. I mean that's a matter of record. I think it is important that I put your question and the nature of the particular risk segment that caused the greatest difficulty in the overall context of a pretty broadly based and diversified bank.

Deputy Michael McGrath: Sure. And ... but just back to the question in terms of whether or not you believe there was an over-concentration of risk in the property development construction sector by Bank of Ireland, in your-----

Mr. Brian Goggin: No. I don't believe there was an over-concentration. I think it was the absolute amount given the subsequent collapse in prices. Look, no matter how conservative-----

Deputy Michael McGrath: But they are very related.

Mr. Brian Goggin: Sorry?

Deputy Michael McGrath: The ... the actual sums of money involved, the nominal value-----

Mr. Brian Goggin: Oh yes, yes-----

Deputy Michael McGrath: And in question of whether there was an over-concentration, they are directly linked.

Mr. Brian Goggin: Well ... I ... Well we can argue the numbers, but look, the bottom line is, that this is where-----

Deputy Michael McGrath: Did you take too much risk?

Mr. Brian Goggin: Did we take too much risk? Yes, we took ... we did.

Deputy Michael McGrath: Can I take you to the NAMA discounts? So it's on the NAMA booklet, C4b-----

Mr. Brian Goggin: C ... Hold on ... hold on a second.

Deputy Michael McGrath: Yes. NAMA C4b, Vol. 1. And it's just one table, and I'm sure you know this-----

Mr. Brian Goggin: No, I-----

Deputy Michael McGrath: -----off by heart anyway.

Mr. Brian Goggin: Hold on a second, Deputy. Hold on.

Chairman: We will give you plenty of time Mr. Goggin, no worry.

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: I don't have a C4b. Is that a Bank ... is that a Bank of Ireland document? Is that a Bank of Ireland core document?

Deputy Michael McGrath: No, NAMA. But-----

Mr. Brian Goggin: I don't have NAMA documents.

Chairman: Well we can provide it to you. It will come up on the screen.

Deputy Michael McGrath: It's quite a broad question, the NAMA discounts on the acquisition of Bank of Ireland loans was considerably less than your peers.

Mr. Brian Goggin: Yes.

Deputy Michael McGrath: It came in at 44% according to this extract from the Comptroller and Auditor General report. What is your reaction to that, even though it is less than the other banks, it is still a very high discount applied to property land development related loans that NAMA would've acquired from your bank?

Mr. Brian Goggin: Yes, my ... I don't have the document you are referring to, but-----

Deputy Michael McGrath: It's on the screen there. It's just the 44% figure.

Mr. Brian Goggin: I can answer your question, certainly. I will. Well, I can offer ... I can offer to your question, Deputy. My research in preparing for meeting you today indicated to me that the Bank of Ireland discount was 43% and the average discount for remaining banks, excluding Bank of Ireland, was 59%. Now that's a significant difference, I think you've-----

Deputy Michael McGrath: Yes.

Mr. Brian Goggin: -----indicated that yourself. However, 43% is one whopping discount for any bank-----

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: -----to experience. So, you know, I was surprised at the level, as I mentioned in my opening statement, I take cold comfort that Bank of Ireland was relatively better off. That's not the point. But, I suppose when you look at what actually happened here and the scale of the reduction in property values, there was no market in 2010, when I think the first transfers to NAMA occurred. And my recollection also is that the original concept of NAMA, and I was retired when NAMA was created, but my recollection was that NAMA was to acquire assets from the banks at medium-term economic value. I'm not sure, looking back on it, that the discounts applied, and they obviously would've varied by bank, reflected medium-term economic value. Maybe what we're actually seeing today is more reflective of medium-term economic value. But look, the bottom line is, the discounts were significant. It was a significant discount for Bank of Ireland and that's what gave rise to the need for additional capital injections-----

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: -----into the Bank of Ireland, to be perfectly honest about this.

Deputy Michael McGrath: Yes. Can I just raise the issue of loan-to-deposit ratios and there are some figures quoted on BOI - Vol. 2. Again, it's an extract from Project Atlas. So it's page 22 of that booklet ... booklet. BOI - Vol. 2.

Mr. Brian Goggin: Page ... Hold on. I'm a bit slow at this, I'm sorry, I'll speed up as the morning goes on.

Deputy Michael McGrath: No problem, take your time.

Mr. Brian Goggin: Page ... Again, page? Page?

Deputy Michael McGrath: Page 28-----

Mr. Brian Goggin: Yes, got it.

Deputy Michael McGrath: -----of BOI - Vol. 2. So again, just looking at the issue of ... of the loan-to-deposit ratios and as you can see, in the green box there-----

Mr. Brian Goggin: Yes, got it.

Deputy Michael McGrath: The ratio is 159% at the end of September 2008. I understand it had gone to a high of 176%. Now, can I ask you, why do you believe the loan-to-deposit ratio went so high, and was it too high in your view and what would you regard as an optimal loan-to-deposit ratio for a bank of your size?

Mr. Brian Goggin: Sure. Well the reason, and I am conscious that it was higher at 159%, I think you mentioned 173%-----

Deputy Michael McGrath: Yes, 176%.

Mr. Brian Goggin: Yes. The basic reason for that, was that Bank of Ireland relied extensively on the wholesale funding markets, in particular ... in particular, the residential mortgage business that Bank of Ireland acquired and developed in the UK, with the original Bristol & West acquisition. That business, which had about €30 billion equivalent of mortgages, was entirely funded through the wholesale markets.

Deputy Michael McGrath: Was there an over-dependence on the wholesale markets for liquidity and funding?

Mr. Brian Goggin: Oh absolutely, when one considers and reflects on what happened. There's nothing with wholesale markets. It's a perfectly legitimate way in which a bank would fund itself and the markets, you know, throughout the 2000's were extremely deep, extremely liquid, Bank of Ireland had a range of instruments - you will have seen those in your documents in terms of how it was accessing wholesale funding but yes, when a wholesale market freezes, I mean the securitization markets were long established, a deep source of funding for banks across the world. I mean the securitization markets in late 2007 or maybe it was early in 2008, they actually froze. We were dealing with circumstances that we had never experienced before. Yes, in an environment like that where your source is withdrawn, you'd clearly be better off not having to rely on it. It was a reasonable and a perfectly acceptable assumption underpinning our business model and our approach.

Deputy Michael McGrath: What assumption?

Mr. Brian Goggin: Of accessing wholesale markets.

Deputy Michael McGrath: But it didn't work out?

Mr. Brian Goggin: No, it didn't, well-----

Deputy Michael McGrath: The markets dried up.

Mr. Brian Goggin: Well, the wholesale markets collapsed.

Deputy Michael McGrath: Yes.

Mr. Brian Goggin: You know, I think-----

Deputy Michael McGrath: So the assumption was wrong?

Mr. Brian Goggin: The assumption turned out to be wrong-----

Deputy Michael McGrath: Absolutely.

Mr. Brian Goggin: Yes, but it was a reasonable assumption at the time. So, you know, in accepting that it was wrong, I think it is important that I again put that in context. This wasn't a cavalier assumption adopted to support a growth strategy. It was a thought-out, you know, well informed view at the time which turned out to be wrong.

Deputy Michael McGrath: Sure, okay.

Mr. Brian Goggin: Could I add one rider comment?

Deputy Michael McGrath: Of course, yes.

Mr. Brian Goggin: There is an assumption by some people that, you know, wholesale markets are bad and conventional deposits are good and that may very well be a valid comparison. However, there is also an assumption that core deposits or retail deposits or however you want to describe, them stay there, they don't. They are as prone to taking flight in the event of a fracture in a bank or in a banking system. We saw here and there were queues on the street outside Northern Rock when it got into difficulty. Ordinary retail customers will look for their money back-----

Deputy Michael McGrath: But was it the collapse of the wholesale markets ultimately that brought the bank to the position where-----

Mr. Brian Goggin: Yes-----

Deputy Michael McGrath: Where it's liquidity had dried up?

Mr. Brian Goggin: Yes-----

Deputy Michael McGrath: It wasn't the flight of deposits-----

Mr. Brian Goggin: No, no, you're absolutely correct-----

Deputy Michael McGrath: Can I just ask you, Mr. Goggin, on the 29 September 2008, did Bank of Ireland need a guarantee?

Mr. Brian Goggin: Did Bank of Ireland need a guarantee - well, I think it's important again to understand the significance of the 29 September and either how far you want me to go back in this but I'm perfectly happy to-----

Deputy Michael McGrath: Well, we have your opening statement which is quite detailed so this is a question and answer exchange.

Mr. Brian Goggin: Okay, I mean, the issue confronting us on the 29 September was the fact that I and the governor of the Bank of Ireland had been put on notice that afternoon that Anglo Irish Bank was going to default the following day. Now this was an extremely grave piece of news to receive - as it happened the governor of the Bank of Ireland had a pre-arranged meeting with the Governor of the Central Bank that afternoon, it was pre-arranged to assist my unsuccessful efforts to get the collateral rules at the ECB broadened and when the governor of the Bank of Ireland returned from that meeting, he informed me that he had advised the Governor of the Central Bank of our meeting earlier that afternoon with the chairman and chief executive of Anglo and brought to the attention of the Governor of the Central Bank that Anglo was going default the following day on a liability that was maturing. Richard Burrows advised me that the Governor of the Central Bank informed him that there was little he could do, little the Governor of the Central Bank could do at that stage.

So, you know, I was in receipt of information that was profound. We had been earlier in that day requested by the Central Bank to consider taking over Irish Life and Permanent.

Deputy Michael McGrath: Yes.

Mr. Brian Goggin: In a scenario where Anglo Irish Bank and Irish Nationwide would have failed and a guarantee would have been provided to the surviving banks. So, you know, picture the scene late in the afternoon of the 29 September, I have all this information, I know something catastrophic is likely to happen the following morning.

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: But I and Richard Burrows felt a deep sense of responsibility to make sure that the Government was aware of the gravity of the situation. So, absent Anglo Irish Bank defaulting the following the day, no, Bank of Ireland would not have needed a guarantee at that juncture. In fact, as I recall it, the prospect of a guarantee, which was raised earlier that morning in relation to acquiring Irish Life & Permanent, had been mentioned to me during the summer of 2008 in a conversation with the Governor of the Central Bank. He mentioned to me that there was lobbying for a system-wide guarantee for all banks.

Deputy Michael McGrath: By who?

Mr. Brian Goggin: He didn't say by who but he mentioned it to me in a conversation and he sought my view, and my view then was quite direct. And, I said to him Bank of Ireland did not need a guarantee, and I, as the chief executive, did not support the idea of a general guarantee for all banks.

Deputy Michael McGrath: When was that, Mr. Goggin?

Mr. Brian Goggin: It was in June or July of 2008.

Deputy Michael McGrath: Okay, well can I just take you back to September ... the end of September, and, given the perilous state of Anglo Irish Bank, which you had been made aware of over the course of the day, against that backdrop, did Bank of Ireland need a guarantee?

Mr. Brian Goggin: Bank of Ireland, in the scenarios that were discussed and considered that night ... and considering the request that was made both of Bank of Ireland and AIB to help out Anglo Irish Bank ... and, you know, on that night it was an extremely difficult ... an extremely difficult issue confronting Government. In fact, I think they had a dreadful predicament. But, you know, in the earlier stages of that meeting, on the night of 29 September, it was made very clear to us that the Government was not minded to intervene. It looked-----

Deputy Michael McGrath: At all?

Mr. Brian Goggin: At all.

Deputy Michael McGrath: With any of the banks?

Mr. Brian Goggin: At all.

Deputy Michael McGrath: By who?

Mr. Brian Goggin: Sorry?

Deputy Michael McGrath: Who made that clear to you?

Mr. Brian Goggin: I ... I can't recall, it would either have been the Minister for Finance or the Taoiseach at that meeting. The request to us was that they expected Bank of Ireland and AIB to provide a solution.

Deputy Michael McGrath: What was your message going in there? Because, you're saying that Bank of Ireland may or may not have needed a guarantee but you recognise Anglo as perilous. What was your message going in? Did you ask for a guarantee?

Mr. Brian Goggin: No, our message ... the primary reason we were there was because of the impending Anglo default the following morning, which I was on notice about.

Deputy Michael McGrath: But what solution were you looking for?

Mr. Brian Goggin: The primary purpose was to ... make sure that the Taoiseach and the Minister for Finance were actually aware of the gravity of the situation. Now, you know, when we arrived it was pretty obvious that they had been briefed, at what point I'm not sure, but they were pretty ... they were pretty much up to speed with the situation at that juncture. We were asked what we thought the Government should do. I was asked for input. My input was that the Anglo Irish Bank and Irish Nationwide needed to be dealt with, they were having a ferocious contagion effect on the system, and that, in that scenario, the rest of the banking system would need to be guaranteed, for a period of time, to give stability to the system.

Deputy Michael McGrath: So you did ask for a guarantee?

Mr. Brian Goggin: Yes. In that context.

Deputy Michael McGrath: And was it your impression that it was a four-bank guarantee which was being considered? That certainly was the evidence that we heard from Mr. Gleeson, Mr. Sheehy ... that it was a four-bank guarantee, excluding Anglo and Nationwide, is what appeared to be on the table. Is that not your experience or does ... can you support that assertion?

Mr. Brian Goggin: In the earlier part of the evening, when there was a discussion around the desirability or possibility of nationalising Anglo Irish Bank and Irish Nationwide, the construct - which would have been very similar to the one that was laid out to me at 11 o'clock that morning down in Dame Street by the Central Bank and Financial Regulator ... a scenario where two banks would have failed and the rest of the banks would have been provided with a guarantee. I mean, that was the genesis of the input I had in going to Government Buildings that night. So yes, I mean, that was a kind of ... the scenario, initially, in the early stages of the discussion. These two banks would be dealt with and the rest of the banks would be given a guarantee. But, it didn't play out that way.

Deputy Michael McGrath: And what was your understanding of being dealt with? Was it to be nationalised, liquidated, taken into custody? What specifically was your understanding of the intentions of the authorities and the Government with regard to Anglo and Nationwide?

Mr. Brian Goggin: Well, you know, I recognised, you know, pretty early on, that the options, or mechanisms, that the authorities had, were very limited. You know, I knew that we didn't have resolution legislation in place. I wasn't sure if one could put a bank into examinership or receivership. I had no previous knowledge or history of a bank being dealt with in that manner, so nationalisation seemed like the only possible option. But look, to be quite blunt about this, you don't nationalise a significant bank in a working week. If you have to nationalise a bank because there's a crisis, you do so at a weekend. So, you know, here we are, we went down for a meeting at 9.30 p.m., we were called in about 11.30 p.m. By the time we were discussing the matters you're now asking me about, it was past midnight.

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: The markets are going to be opening in a few hours, you know. Is there an actual plan to nationalise two banks or is there not? I know from the notes I have seen in the core documents that you sent me, from the brief minutes recorded by the Department of Finance on the said evening, that the Governor of the Central Bank expressed reservations about trying to nationalise a bank or two banks at that stage of the week. I think he used the term "fumble", or that word, I think, appears in the documentation.

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: From a purely practical and pragmatic perspective, by the time we got past midnight and into the discussion, I realised that the idea of nationalising two banks just was not realistic.

Deputy Michael McGrath: On page 18 of your opening statement you said, "I was aware that the Minister for Finance regarded three banks as being in difficulty (Anglo Irish Bank, INBS and IL&P)". How did you get that impression?

Mr. Brian Goggin: I was informed of it in Dame Street on the morning of the 29th.

Deputy Michael McGrath: And these comments were attributed to the Minister by whomever conveyed them to you.

Mr. Brian Goggin: Yes. That is correct. Yes.

Deputy Michael McGrath: Yes.

Mr. Brian Goggin: Sorry, Deputy. I am sorry to interrupt you. I didn't actually answer your question about the four banks and let me ... apologies for that. I was too busy giving you a broader explanation as to what was going on that night. So, at a point when I realised that the concept of nationalising two banks wasn't a realistic prospect-----

Chairman: Sorry there, Mr. Goggin, a realistic prospect on the night or not a realistic prospect that could be held over until the weekend?

Mr. Brian Goggin: On the night.

Chairman: Okay, so you were envisaging that this could maybe roll into the weekend and it might be nationalised over the weekend.

Mr. Brian Goggin: Correct.

Chairman: Okay, thank you. Sorry about that. Deputy McGrath.

Mr. Brian Goggin: Correct. When we ... we spent some considerable time out of the room. We were asked, as I mentioned earlier, by the Government to come up with a solution for Anglo, and after, you know, some heated discussion backward and forwards on that, both banks, when asked to consider providing €5 billion each, with the benefit of a bilateral guarantee for that particular transaction-----

Deputy Michael McGrath: Yes.

Mr. Brian Goggin: -----we left the room, and I obviously had to consult with my colleagues back in Baggot Street by conference call. Five billion euro was a big ask. We certainly didn't have that liquidity available on the spot, and to cut a long story short, we were able to conclude that by participating in the weekly ECB tender for normal market operations on Wednesday, we could post collateral - because Bank of Ireland had lots of collateral - we could post collateral and come up with €5 billion to meet the request of Government to assist-----

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: -----in the crisis that we were all facing. When we eventually returned to the room ... this must be, you know, around 2 o'clock now, a.m., when we returned to the room and both banks informed the meeting that we could produce €5 billion that week ... I think AIB could produce some of it the following day. It was our half-year end so we had kind of closed off our books, but both of us could produce €10 billion between us during the course of the week. The mood of the room changed. There was a palpable sense of relief. The immediacy of the possibility of an Anglo default had been dealt with.

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: It was at that juncture that my recollection is that we were informed that the Government had decided they were providing a blanket guarantee for all banks. So when I eventually left Government Buildings that night at about 3.30 a.m., there was no ambiguity in my recollection and in my understanding of what was done that night.

Deputy Michael McGrath: The decision had been made before you left.

Mr. Brian Goggin: The decision had been made - it was a blanket guarantee.

Deputy Michael McGrath: And that was conveyed to you. By who?

Mr. Brian Goggin: That was my understanding. By ... I can't recall.

Deputy Michael McGrath: Okay.

Mr. Brian Goggin: I mean, the people in charge that night.

Deputy Michael McGrath: Sure.

Mr. Brian Goggin: I mean, the Taoiseach was chairing the meeting and he was very much in charge. Much of the running and interaction was conducted by the late Brian Lenihan, the Minister for Finance.

Deputy Michael McGrath: Sure, okay. Mr. Goggin, as we know, top bank executives are well paid. For the year to the end of March 2007, your own remuneration package was a mouth-watering €2,000 short of €4 million. How do you reflect on that now?

Mr. Brian Goggin: I was paid exceptionally well as chief executive of the bank. My remuneration as chief executive and the remuneration of the chief executive was determined by the board. I had no input or involvement in that determination. I was set annual objectives by the board. I was evaluated and my performance was evaluated against those objectives and the board determined what discretionary payments I would receive, based on that evaluation. The board also authorised and sanctioned the payment of those moneys.

Deputy Michael McGrath: Okay. Would you care to reveal to the inquiry what your annual pension is from Bank of Ireland?

Mr. Brian Goggin: The details of my remuneration while I was chief executive of the bank were a matter of public record and are contained in the various annual reports for the said periods. For the periods prior to my term as chief executive, I was an executive director of the bank from 2000, and again all of my remuneration arrangements are on the public record and I prefer to leave it at that, Deputy.

Chairman: Okay, thank you, Deputy McGrath, I'll bring you back in again later. Deputy O'Donnell?

Deputy Kieran O'Donnell: Thank you, Chairman, and welcome, Mr. Goggin. Mr. Goggin, could I direct you to document B5, Vol. 1 and this document basically-----

Mr. Brian Goggin: Hold on, sorry.

Chairman: Hold it there, Deputy.

Deputy Kieran O'Donnell: Vol. 1.

Mr. Brian Goggin: Yes. Page?

Deputy Kieran O'Donnell: B5.

Mr. Brian Goggin: Page?

Deputy Kieran O'Donnell: Page 3. Now, this document deals with-----

Mr. Brian Goggin: Hold on one second, Deputy.

Deputy Kieran O'Donnell: Yes.

Chairman: ... there, Mr. Goggin, if that assists you.

Deputy Kieran O'Donnell: Tell me when you're ready, Mr. Goggin.

Mr. Brian Goggin: Yes, yes, sorry, Deputy, I'm with you now.

Deputy Kieran O'Donnell: We're on the one page?

Mr. Brian Goggin: We're on the one page, yes.

Deputy Kieran O'Donnell: Okay. Not quite, but anyway. This deals with the top ten executives in terms of remuneration and it's following on from the previous questioner. What type of salary and bonus operation was in place for the top executives, including yourself?

Mr. Brian Goggin: Can I refer you to my evidence statement, Deputy? Section 6, page 12, and if you flick onto page 13, I've shared with you, in this statement, the performance evaluation and remuneration structure, particularly in relation to incentivisation, as set out here in my evidence statement. The remuneration system, as you'll be aware, was overseen by the remuneration committee, a committee comprising of non-executive directors, and remuneration comprised of various elements: salary, discretionary bonus, stock options, long-term stock plans, etc. There was a comprehensive-----

Deputy Kieran O'Donnell: But you might explain, in terms of page 13 that you directed us to in your own opening statement. Why did we go from a situation in '05-'06 where the amount ... 30% of the bonus related to profit before tax and 70% related to cost savings. That dynamic changed in '06-'07, where it became 45% profit and 55% cost. And then, in '07-'08, we suddenly found we had a dynamic where it went to earnings per share, which is really profit related, up to 75%. So, three quarters of your bonus was based on earnings per share and only 25% was based on cost.

Mr. Brian Goggin: Yes, well I'm glad you've raised this question with me because what we don't have here is the year 2004-05 and in that year 100% of bonus was a function of profit. I introduced this tiered system-----

Deputy Kieran O'Donnell: But I'm quite happy on the tiered system. But why, between '06 and '07, do we have ... that it was based 45% ... for '06 and '07 ... 45% based on profit, 55% based on costs, and suddenly the following year, '07-'08, that was completely ... all the weighting was put towards profits. Some 75% of your bonus was based on profit and 25% of it was based on costs. And I suppose the question I'm putting to you ... in that year, '07-'08, in ... to the year ended 31 March 2007, you made €4 million of a profit ... sorry, €4 million of a salary. You'd, in essence, €1 million of a basic salary per annum and you'd a performance bonus of varying between about €1.2 million per annum ...it went double that figure in '07. So the question, I suppose, I'm asking you is: how can you justify that level of salary and how ... why did the dynamics, the mix, change between '06 and '07 ... where it was all appeared to be profit driven? So, did you ... in terms of the structure for top executives in Bank of Ireland, were the bonuses driven by profit and, by implication, your salary and your bonus is driven by profit? So effectively, if the bank was lending, basically your salary and your bonus was going up. And how do you justify €1 million a year basic and roughly somewhere between €1.2 million and €2 million per year of a bonus on top?

Mr. Brian Goggin: Deputy, you're asking me a bunch of questions here now. Let me see if I can deal with-----

Deputy Kieran O'Donnell: They're all related to the same thing.

Mr. Brian Goggin: Oh I know, I-----

Chairman: I'll allow plenty of time for you to respond, Mr. Goggin. Mr. Goggin, you have the floor.

Mr. Brian Goggin: Okay. Thank you, Chairman. What I was trying to explain to you, Deputy - and I'll be as full on this as I can be - prior to 2005-06 all of the discretionary bonus was determined by profit. The reason that it changed in 2005-06 was to align the incentive structure directly to the strategy that I implemented. And if you recall the comments I made in my opening remarks, I said that the Bank of Ireland Group faced a number of issues when I took over as chief executive. Its total shareholder return was in decline, it had a multiplicity of different systems and processes, its costs were out of line. So, I put in place a very comprehensive strategy to deal with that and I wanted to ensure that the top executives were motivated and incentivised to deliver on that plan. And that's why I removed the 100% profit as a determinant of profit ... of bonus, and I switched the bank in the first year to 70%. And it gradually declined, as you've correctly pointed out, because the plan began to deliver. It was a three-year plan. The plan began to deliver on the costs. So, as the plan began to deliver, our focus shifted to delivering superior profit performance.

Deputy Kieran O'Donnell: So, therefore, am I correct in saying between '06-'07 you went from being the ... of your bonus, 45% was determined by profit, to 75% in the following year, when effectively loans were ... we were then at a situation whereby that ... the economy and the whole issue of property was on a ... in a decline? And the question I'll ask you again is: how do you justify a bonus of the order of €2 million in '07 and €1 million a year on top of a basic salary of €1 million when, effectively, you had €4 million in '07, which was the top corporate salary in Ireland in that year, how do you justify that level of salary?

Mr. Brian Goggin: Look, as I explained to-----

Deputy Kieran O'Donnell: Personally how do you justify it?

Chairman: Leave a response, Deputy O'Donnell, and then we'll be moving on.

Deputy Kieran O'Donnell: Yes.

Chairman: Mr. Goggin.

Mr. Brian Goggin: As I explained to Deputy McGrath, the board of the bank determined the remuneration in its entirety for the group chief executive. As group chief executive I did not have any input or involvement in that.

Deputy Kieran O'Donnell: Was there any risk element built into the calculation of the bonus?

Mr. Brian Goggin: There wasn't an explicit risk modifier. There was, however, a significant element of risk in the performance evaluation. I had key result areas covering a number of risk dimensions. So, risk wasn't ignored but it wasn't a specific modifier.

Chairman: We've a number of questions to be covering on this area. Very simply, on your remuneration, did you merit it, given the bank eventually went into a bailout programme?

Mr. Brian Goggin: The board of the bank determined my remuneration.

Chairman: Did you merit it?

Mr. Brian Goggin: If the board of the bank didn't deem that remuneration to have been merited in the context of remuneration structures at the time, I wouldn't have been paid it.

Chairman: And what's your view on the merit of it?

Mr. Brian Goggin: It wasn't for me to determine, Chairman.

Chairman: Okay, thank you.

Deputy Kieran O'Donnell: Can I just go back? The ... just I suppose to bring summary on this issue. You are saying effectively then that the bonus model revolved around in '06, '07, '08, the 75% based on earnings per share profit of the company and, in essence, it was based upon loans performing at a specific point in time. And the risk level of those specific loans in terms of the calculation of your bonus really wasn't a factor.

Mr. Brian Goggin: That is correct, Deputy, yes.

Deputy Kieran O'Donnell: Would you ... In retrospect Mr. Goggin, was that not in terms of looking back at the amount of taxpayers' money that's been put into the Bank of Ireland, was that not foolhardy on the part of Bank of Ireland?

Mr. Brian Goggin: Well, I think Bank of Ireland, you know, had quite a comprehensive remuneration configuration and governance process in place. Risk was considered. We had a highly sophisticated Basel II risk calibrated process. You know, determining the quality of a loan book went through a rigorous process. And, to be quite frank with you nobody saw, even in 2007, even in 2008, what was coming down the tracks. So I think, I think one of the lessons to learn from what Ireland has experienced and banking systems generally around the world, there needs to be a better link on a forward looking basis between remuneration and risk.

Deputy Kieran O'Donnell: So I suppose in summary, you feel based on your performance in Bank of Ireland that you were worth €4 million in 2007 by way of salary.

Mr. Brian Goggin: The board determined that, Deputy.

Deputy Kieran O'Donnell: Can I move on to -----

Chairman: We are going into an area of repetition. We have a series of questions we need to get through this morning so if I could push the Deputy to move on please.

Deputy Kieran O'Donnell: I'm just about to, Chairman. Can I move to B1, Vol. 1, page 55? A very quick question.

Mr. Brian Goggin: B1, Vol. 1. Hold on one tick. Yes, got you.

Deputy Kieran O'Donnell: It's about loans. And it says ... this is dated 27 January 2003. It says, second paragraph, ''The objective had been to allow BB to compete more effectively - in particular with Anglo-Irish Bank.''

Mr. Brian Goggin: Yes.

Deputy Kieran O'Donnell: Were you chasing Anglo Irish Bank in terms of market share for customers?

Mr. Brian Goggin: No, the short answer to that question is absolutely not. I mean they were a competitor in the marketplace. It's interesting when you look at this comment. Here we have in 2003 the establishment of a specialised property finance unit within branch banking. We assigned to that unit highly experienced lenders. This was a trial that went on for two years. This is a very good example of how Bank of Ireland poked its toe into new territories initially. It did it by trial. Look at the amount of money that we gave this team to them - €25 million.

Deputy Kieran O'Donnell: Well can I in terms-----

Mr. Brian Goggin: And having a evaluated the trial we said to them, ''All of the experience looks very good, you actually can have €100 million.'' This is ... Anglo Irish Bank would lend that in a second. This was a very considered structured approach to taking on additional risk.

Deputy Kieran O'Donnell: But Mr. Goggin you specifically singled out Anglo Irish Bank, right? And I'm asking .. you've told me your answer. Can I move onto -----

Chairman: The purpose of this morning ... the engagement this morning Mr. Goggin is the behaviour of Bank of Ireland. If we can focus upon that matter, not other banks.

Mr. Brian Goggin: It was brought to my attention here.

Chairman: And I'll allow some scope in that area.

Deputy Kieran O'Donnell: Can we move onto new territories you spoke about yourself? B2, Vol. 1, page 15.

Mr. Brian Goggin: Page 50?

Deputy Kieran O'Donnell: Page 15.

Mr. Brian Goggin: Yes.

Deputy Kieran O'Donnell: One of the areas that at the time was Bank of Ireland were the bank that pioneered the 100% loan-to-value mortgage for home owners. And I noticed that the borrower's profile was main applicant's age profile is young with 54% aged 30 or below, 43% are from single applicants with a medium salary level of €50,000 to €60,000. Why did you go into that market because many of those people that would have received those mortgages, and you can see it in the profile and the way that we have received from Bank of Ireland in various representations at other committees, that the arrears with that group appears to be significantly higher than anywhere else? So the question I'm asking you ... that was back in ... this memo was November '05 -----

Mr. Brian Goggin: Yes.

Deputy Kieran O'Donnell: -----and you went into this market in August '05.

Mr. Brian Goggin: Yes.

Deputy Kieran O'Donnell: It happened under your watch, Mr. Goggin. Why did you go to that new territory?

Mr. Brian Goggin: Could I in answering your question, Deputy, just correct the record. Bank of Ireland did not pioneer 100% mortgages.

Deputy Kieran O'Donnell: For home owners.

Mr. Brian Goggin: Bank of Ireland came into the 100% home owner market after the practice had been established and we were losing market share.

Deputy Kieran O'Donnell: To whom?

Mr. Brian Goggin: The pioneers of 100% mortgages was Ulster Bank through First Active. And we actually ... when the concept of providing 100% mortgages was first raised at a group risk policy committee, my recollection is it was declined and by the time we came to providing 100% mortgages, we were very much as a reluctant follower. It was to protect our franchise and, initially, the offering was to professionals. It was then broadened out to first-time buyers and, by definition, as things transpired, it was going to be a higher risk segment. That's why we didn't want to be in 100% mortgages.

Deputy Kieran O'Donnell: But you ... as the CEO of the bank you had discretion to decide whether you went into that market or not, Mr. Goggin. You had discretion, that was your call.

Mr. Brian Goggin: Yes, I think we...well, yes, as I said to you Deputy, we entered into this market reluctantly. You know I can add a little bit more colour to this if you wish.

Deputy Kieran O'Donnell: Please do.

Mr. Brian Goggin: We were so opposed to 100% mortgages that when the Financial Regulator came to me ... I can't recall quite when. I think it must have been some time in mid 2006. I had a visit from the Financial Regulator who himself was expressing concern about the development of 100% mortgages in the marketplace. And he came to seek my view as to a remedy that he was proposing. And the remedy that he was proposing was to apply higher capital weightings to 100% mortgages.

And I can remember the meeting very well. My reaction to him was that he was wasting his time. And the reason I said that was that banks were running with surplus capital and that the imposition of a higher capital weighting would have zero effect in terms of changing the behaviour of banks but, to be helpful, I suggested to him that he immediately ban the provision of mortgages of more than 90%. I told him that I would come out and back him publicly. The reaction I got was it wasn't the role of the regulator to interfere in the market. To which my response was, this is the very time the regulator should interfere in the market. So, Deputy -----

Deputy Kieran O'Donnell: What date was that?

Mr. Brian Goggin: This was around mid-2006.

Deputy Kieran O'Donnell: Mid-2006.

Mr. Brian Goggin: I'm not for a second -----

Deputy Kieran O'Donnell: Was that with the Financial Regulator at the time?

Mr. Brian Goggin: I'm not for a second defending Bank of Ireland's entry into the 100% segment. I am merely explaining the circumstances which saw us enter it.

Deputy Kieran O'Donnell: In hindsight, should you have entered that market?

Mr. Brian Goggin: No.

Deputy Kieran O'Donnell: Okay. Can I move onto BOI - Vol. 1, C3b. I want to go to -----

Mr. Brian Goggin: CB -----

Deputy Kieran O'Donnell: C3b, page 20.

Mr. Brian Goggin: Got it. Yes.

Deputy Kieran O'Donnell: I want to direct you to a paragraph 3, Government Guarantee.

Mr. Brian Goggin: Yes.

Deputy Kieran O'Donnell: This is from a memo, group liquidity committee minutes, 29 September 2008, basically the day before or the night before of the guarantee. And it reads ... ''Government Guarantee'' is the heading. Yourself ... BJG, which I assume is yourself?

Mr. Brian Goggin: That's correct.

Deputy Kieran O'Donnell: "The Committee prepared a draft of such a guarantee [this is the guarantee] and the list of institutions that it should cover for use by the BJG [Brian Goggin] in his meeting later that evening", which was basically with the Government and with the other banks in Government Buildings. So can I ... what document is that minute referring to, Mr. Goggin?

Mr. Brian Goggin: Well, Deputy, when I received the core documents and I read this piece I said, ''What is this about?'' I have absolutely or had absolutely no recollection of a document being drafted, and for the record, there was no document, and I'll refer you to Bank of Ireland**,** Vol. 2, page 23 - a letter from the group secretary of the Bank of Ireland in relation to this matter and as you will see in that letter, because I actually put a request in to Bank of Ireland to be honest with you, I had no recollection of this particular minute - I asked for sight of the guarantee, it is going back six years in time.

Deputy Kieran O'Donnell: We've had various, we'll say people, in before us and I would just ... it kind of brings in analogies like the dog stole my copybook, that ... the worry here is that we are seeing various publications and minutes saying that there was a guarantee in place, a draft guarantee brought by the two institutions that went to the Government on the night. So we have minutes of the group liquidity committee minutes, basically which are obviously prepared at that time by L. Cooney, whoever L. Cooney was.

Mr. Brian Goggin: Yes, he was secretary to the committee.

Deputy Kieran O'Donnell: Okay. Now, the question is, is that we have contradictory evidence here Mr. Goggin, which ultimately we need to bring ... so do you see the contradiction?

Mr. Brian Goggin: Of course I do, and to be quite upfront about it, I told you I ... when I read it and I received my core documents two weeks ago, I said what is this about, I have no recollection of it. Now it's quite possible that I wouldn't have a recollection given the passage of time but I requested a copy of the guarantee from the bank. I certainly have no memory of any guarantee being drafted by Bank of Ireland on that night and furthermore I have absolutely no recollection of having any piece of paper with me when I was in Government Buildings for lots of hours that night. And Deputy, I refer you to the letter that was submitted to the inquiry dated 20 April 2005. It is written by the group secretary and this was in response to me inquiring where is the draft guarantee and it reads:

> I have checked with a number of the people who attended the meeting including the person who subsequently prepared the minutes. They recall a discussion in relation to the meeting with government which was to take place later that evening but have confirmed to me that a draft guarantee was not prepared. The minutes of 29 September 2008, insofar as they refer to a draft guarantee being prepared, are, therefore incorrect. [And the last sentence in that paragraph reads] All of the people confirmed that no draft guarantee or listing of institutions to which it might be applied was produced or communicated to anybody.

So the minute is incorrect.

Deputy Kieran O'Donnell: Okay, well can I just ... a couple of final questions. On the night of the guarantee, was Bank of Ireland solvent?

Mr. Brian Goggin: Yes, absolutely.

Deputy Kieran O'Donnell: And in various ... we had Mr. Sheehy in, former CEO of AIB in here yesterday. He stated that on the night of the guarantee that yourselves and AIB had concerns about what was being drafted by Government in terms of the guarantee about the whole area of the Financial Regulator looking for a line in terms of the solvency of the banks. Did you object to that line being put in to the draft being issued by Government?

Mr. Brian Goggin: I can't quite recall. I think it was a position taken more strongly by AIB but I do recall the discussion quite clearly and I would have been supportive of the view that they were expressing.

Deputy Kieran O'Donnell: So you would have had no difficulty with a draft being issued by Government on the night that the banks were solvent?

Mr. Brian Goggin: No, no, no. I said I was supporting the position as described by Mr Sheehy yesterday.

Deputy Kieran O'Donnell: Why would you support that position when in essence, at that moment in time, you would have thought the guarantee purely related to the four institutions and not to Irish Nationwide and Anglo?

Mr. Brian Goggin: It was specifically in the context of the guarantee applying to the six banks that I would have had the concern because the wording as proposed would have included two banks that I would have had concerns about.

Deputy Kieran O'Donnell: Can I just go back to ... you made reference there that Mr. Cowen was very much in charge of proceedings on the night of the guarantee and that Mr. Lenihan was interacting. Could you just put a bit of colour to that particular ... just describe on the night what was happening?

Mr. Brian Goggin: Well, it was a fairly fraught occasion. Remembering who said what is extremely difficult.

Deputy Kieran O'Donnell: When you say "fraught", what do you mean?

Mr. Brian Goggin: Well the whole circumstances that we were dealing with, I mean ... the day and the night, the entire day and the night of 29 September was the worst day of my life. The pressure, the stress, the issues I was trying to deal with, I mean it was, it was incredibly stressful and traumatic, as it was for the Government members present that evening and the officials. My recollection of the room, and I can kind of picture the room as I am thinking back on it, the Taoiseach was at the top of the table, he was chairing the meeting, he was very much in charge. But most of the interaction was conducted by the Minister for Finance.

Deputy Kieran O'Donnell: When you say interaction, what do you mean by interaction?

Mr. Brian Goggin: Discussion -----

Chairman: Deputy, you are running out of time now and running out of questions.

Deputy Kieran O'Donnell: Go on, sorry, please elaborate.

Mr. Brian Goggin: Discussion, looking for views, questions, input. Officials tended to be, in that environment, somewhat subservient to a Minister.

Deputy Kieran O'Donnell: And what guarantee was Bank of Ireland looking for from the Government on the night?

Mr. Brian Goggin: In the context of Anglo Irish Bank defaulting the following day and in either of a scenario of -----

Deputy Kieran O'Donnell: Specifically for Bank of Ireland now.

Mr. Brian Goggin: Specifically?

Deputy Kieran O'Donnell: Deposits.

Mr. Brian Goggin: Sorry, excuse me Deputy, I misunderstood you. The content ... what was covered by the -----

Deputy Kieran O'Donnell: Correct, what were you looking for?

Mr. Brian Goggin: I had a number of discussions with colleagues of mine in the bank, either before I went down to Government Buildings that evening, and certainly during the course of the evening when I was kicking back and forth in terms of trying to solve the Anglo issue. I did discuss with my colleagues from the capital markets and treasury side of the business what, in their view, should be covered.

Deputy Kieran O'Donnell: Had you bonds maturing? I know I am running out ... I just want you to give me a, flesh out what you wanted, deposits, senior bondholders, had you bonds maturing?

Mr. Brian Goggin: No, the bank ... actually that night I had no idea of the maturity profile of the bond portfolio in Bank of Ireland but what we did offer into the room, when asked for an opinion on what should be covered, it was very clear. Having had that dialogue with my colleagues over the course of the evening the Bank of Ireland position was that senior creditors clearly needed to be covered, junior creditors insofar as they were dated instruments and we didn't feel that undated juniors should be covered because they were akin to permanent capital. Now there was a reason for this. The reason that we suggested that junior dated should be included was that were concerned about the crossover between junior dated and junior ... and senior bondholders, senior creditors. We were also concerned that that very same population, it was a crossover to the sovereign. So, in terms of, and the primary purpose of the guarantee was to ensure stability of the banking system, it was important from our perspective to ensure that that stability was achieved and that the capacity of the banking system and the sovereign would not be impaired in terms of accessing the very individuals who are both providers of dated subordinated and senior bonds.

Chairman: Sorry you are out of time Deputy, I need to bring it back, one very short question, you are way over time now.

Deputy Kieran O'Donnell: One brief ... it is very short. So you looked for the lower tier 2 subordinated debt to be included?

Mr. Brian Goggin: Dated subordinated yes.

Deputy Kieran O'Donnell: Lower tier two?

Mr. Brian Goggin: Well, dated subordinated.

Chairman: I just want to wrap up a few matters with you before we take a coffee break there Mr. Goggin. On the issue of the ... you are correct, Bank of Ireland did not introduce 100% Irish ... mortgages into the Irish market. In your account to the inquiry this morning, you said that it was mid-July 2006 or so was when you met with the regulator on this issue yes? Sometime in around -----

Mr. Brian Goggin: Yes, it would have been after the period that we introduced them ,100%, which was November 2005, so I think it was mid-2006.

Chairman: And you were quite explicit as to what your view on that product actually was, to the committee here this morning.

Mr. Brian Goggin: I was.

Chairman: Is there a record of that meeting?

Mr. Brian Goggin: I don't believe there is unless I reported it to the board and it's in the board minutes or in my chief executive's report to the board.

Chairman: Could Bank of Ireland assist the committee in establishing whether there is a record or not of that?

Mr. Brian Goggin: Yes, I am sure Bank of Ireland could indeed Chairman.

Chairman: Okay thank you. On the issue of the guarantee which is one question on that, in your view, was it the best or the correct or the wrong solution and was it the decision that you expected?

Mr. Brian Goggin: Well, I think as I ... I used words there earlier on that the Government had a dreadful predicament ... I don't know what other advice the Government got on the night. I was not, as you will be aware, a party to the decision. So I don't know what other options or inputs they considered. But I think, you know, given the circumstances at the time, I don't think they had much by way of an alternative option.

Chairman: Was it your view, leaving the building that night, or was it not your view, that regardless of the timing ... were you of the view that Anglo and Nationwide were going to be nationalised?

Mr. Brian Goggin: No, I was not.

Chairman: And were you surprised or not surprised that they were included in the guarantee the same as everyone else?

Mr. Brian Goggin: No, I was perfectly clear that once I returned into the room and informed the Government that we could provide €5 billion, it was at that juncture, my recollection is, that I was informed that the guarantee was going to be a blanket guarantee covering all banks-----

Chairman: Okay, thanks-----

Mr. Brian Goggin: -----so I left Government Buildings believing there to be a six-bank guarantee.

Chairman: Okay, I just want to return to ... it's just a question hanging over from some of your engagement there with Deputy McGrath this morning, and that's the issue of loan-deposit ratios, and the acceptable level at the moment or the guideline now seems to be of, maybe 100%-120%, if I'm correct, yes?

Mr. Brian Goggin: Em-----

Chairman: Okay. Just to deal with the fact that deposits can move very, very swiftly: this is something that's in the bank that somebody can come in this afternoon and take from you because it's their money. This is a very, very rapid moving area of finance. Given the swiftness of that ... and you say that they've reached levels of 150% with Bank of Ireland during that period. Is that correct?

Mr. Brian Goggin: Loan-to-deposit ratio?

Chairman: Yes.

Mr. Brian Goggin: Yes, I think Deputy McGrath pointed to a figure of 153% in the documents. I think it may, in fact, have been higher.

Chairman: It went to 176%, okay.

Mr. Brian Goggin: Yes.

Chairman: So you were ... the increase ... the continued increase in this area and the increase of the asset size of the books, could that not only lead to further exposure to wholesale markets, which would have seen the problems that were actually happening out there?

Mr. Brian Goggin: Would have seen which, Chairman?

Chairman: Would it not ... the increase in exposure that was happening because of-----

Mr. Brian Goggin: To the wholesale markets?

Chairman: Yes, to the wholesale markets.

Mr. Brian Goggin: Yes.

Chairman: What was your view of that? Were you not creating a situation where you would become very, very vulnerable to the wholesale market-----

Mr. Brian Goggin: No, I mean, the wholesale-----

Chairman: ----- because of this?

Mr. Brian Goggin: No, the wholesale markets were, you know, at the time a very established source of predictable funding. I mean, you'll see from the paper, we'd a series of programmes in place. You know, there was French commercial paper, dollar commercial paper, sterling commercial paper. There was asset covered bonds. There were securitisations, mortgage-backed securities, commercial mortgage-backed securities, a whole bunch of different instruments. I mean ... you know, this was an extremely broad, deep, and liquid market. Nobody envisaged that this source of supply was going to get choked off.

Chairman: But in the Nyberg report ... and I can pull up the document ... but in the general comment in that is that you were ... the issue of borrowing long or ... and that ... you were lending short ... and lending long-----

Mr. Brian Goggin: Borrowing short and lending long.

Chairman: -----and borrowing short, which is in the Nyberg report. Was that not at the crux of all this?

Mr. Brian Goggin: Yes, but, look, I mean, I've been ... I was in banking for 40 years. I was a very experienced banker. Throughout my working life there was an operational gearing in the banking model where banks borrow short and lend long. You know, banks lend for mortgages. Half of Bank of Ireland's ... or 44% of Bank of Ireland's mortgages ... or 44% of Bank of Ireland's total lending was in mortgages. Mortgages are lent for 25 or 30 years. We didn't have any funding coming anywhere near that maturity profile. So you have a fundamental and structural imbalance in the funding mix in a conventional bank.

Chairman: And at any time did the bank consider slowing its asset growth and taking a more conservative approach?

Mr. Brian Goggin: Well, I mean, the bank's ambition in the mid-2000s onward was to grow earnings per share by mid-teens. You know, we felt ... and we were wrong in this. We felt that we could grow the asset base across all of our portfolios in the order that we were doing and that that was a safe thing to do, both from a risk and a funding point of view.

Chairman: Just one final question before we go to the break, so, Mr. Goggin, and that is ... it relates to core documents, Bank of Ireland - Vol. 1, B1.

Mr. Brian Goggin: B1.

Chairman: B1, pages 95-98.

Mr. Brian Goggin: Sorry, hold on there.

Chairman: Yes, sure.

Mr. Brian Goggin: My papers now have gotten mixed up.

Chairman: Take your time.

Mr. Brian Goggin: B1, yes, 90? Sorry, give me the numbers again.

Chairman: Pages 95-98.

Mr. Brian Goggin: 95?

Chairman: Yes. And I'll be taking this in a generalised approach so I-----

Mr. Brian Goggin: Yes, yes, okay.

Chairman: -----won't be taking you through it page by page.

Mr. Brian Goggin: Yes, yes, okay.

Chairman: On core documents, BOI - Vol. 1, B2, so it's just for the record, pages 63-67. And what we're looking at here is property concentration in the group's loan book and sectoral exposures, so on.

Mr. Brian Goggin: Yes.

Chairman: And what's been demonstrated here is a level of exposure of property lending. And the lending ... that this was regularly commented upon in the GRPC ... and in December 2007 ... and it noted that 44% of all non-mortgage lending is into property. So there's sectoral concerns ... lending concerns in the particular sectors now developing. And when the figures for mortgage lending and property construction lending are amalgamated, the results are in or around 70% of the bank's entire loan book related to the property in one form or another. So given that level of overall lending which was property-related, should there have been a higher level of concern in the bank at the time?

Mr. Brian Goggin: Well, I mean, your articulation of the numbers are statement of fact. Bank of Ireland was very comfortable pursuing a strategy where half of its risk assets were in residential mortgages. We deemed that form of lending to be an extremely safe form of lending. And, you know, there's nothing wrong with property lending. The question is: how diversified is your risk and how good is your underwriting? But, look, we know that in the final analysis it was a segment of the property and construction, i.e., the land bank section ... segment, where the main difficulty arose.

Chairman: But was there any contingency in there that if employment rates fell into the future ... because, as Nyberg and other reports have demonstrated, there's a systemic relationship to house values-----

Mr. Brian Goggin: Yes, yes.

Chairman: -----and people's ability to get work. Was there any cognisance that we were at record employment levels at that time - almost considered 100% employment ... that if employment levels fell, would there be an exposure and an inability, as Deputy O'Donnell explained, with people's ability not to pay back their loans?

Mr. Brian Goggin: Yes, you're absolutely quite right, Chairman. I mean, the single biggest risk factor in lending for residential mortgages is employment. That is the ultimate determinant of whether a person gets into arrears or not. It's not about the value of the property. It's not about whether it's positive equity or negative equity. It's about persons' earnings and the continuity of those earnings. Yes, we ran various scenarios showing unemployment rising. I think some of the hypothetical stress tests that were ... came in from the Central Bank in '06 and '07 had unemployment numbers running up to 8% and 9%, but at those levels they were well within our tolerance and capacity to absorb.

Chairman: But it was a matter of general public discourse or record at the time - I don't need to go into citation - that the Irish construction sector and development sector was in about 24% of the Irish economy-----

Mr. Brian Goggin: Yes.

Chairman: -----twice above what the European rate ... or normal rate, which is around 10% or 12%, is currently at 6% or 7%, and it needs to get back to the European average.

Mr. Brian Goggin: Yes.

Chairman: But it was 24% of the Irish economy. So that's not just that it's operating on a balance sheet. That's 24% of the Irish working population inside, or practically as well.

Mr. Brian Goggin: Yes, yes.

Chairman: And the compound concerns that would arise out of that, was that ever on the radar of Bank of Ireland?

Mr. Brian Goggin: No, we were conscious that construction activity as a portion of GDP was high. And, I mean, you know, when you look at this ... I mean, this was a much broader issue than just mortgages and banking. It goes right to the core of economic management and fiscal policy and taxation policy. But, you know, we viewed Ireland at that point, and many of the reports ... independent reports point to Ireland catching up. We had a big growth in employment. We had a demographic where two thirds of the population was under 44 years of age. On average, the Irish demographic was ten years younger than the European demographic. So there was a huge catch-up. We had a huge investment in infrastructure. I mean, a lot of that property and construction was in infrastructure. So I think, again, a lesson to learn from your work is, you know, ensuring there is some balance in any disproportionate degree of activity in the broader kind of macroeconomic policy.

Chairman: All right, thank you, Mr. Goggin. I now propose that we break until 10.50 a.m., and, in doing so, can I remind the witness that once he begins to give his evidence, he should not confer with any person other than his legal team in relation to his evidence or matters that are being discussed before the committee? With that in mind, I now propose we suspend the meeting until 10.50 a.m. and remind the witness that he's still under oath until we resume. Is that agreed? Agreed.

Sitting suspended at 10.29 a.m. and resumed at 10.57 a.m.

Chairman: Are we back in ... quorum? We are indeed. With that said, I'd like to go back into public hearings with immediate effect. Is that agreed? Mr. Goggin, just very, very briefly, just to clear up one item. On the night of the guarantee, were you and AIB in the same room for the duration of the evening or were you in separate rooms, and in your meetings with either the Taoiseach or Mr. Lenihan, the Finance Minister at the time, were you together during all of those periods?

Mr. Brian Goggin: Okay. When we arrived initially in Government Buildings for the 9.30 p.m. meeting we were both ... or the four of us were together in one room until 11.30 p.m. At all of the meetings, perhaps bar one, with the officials, AIB and Bank of Ireland, from my recollection, were always together. I think we might have been separate during the discussion on which subsidiaries of the two banks should be covered by the guarantee. Apart from that, my recollection is that BOI and AIB were always together. Sorry, and there's one other exclusion. When both of us were considering the provision of the €5 billion, we were in separate rooms dealing with that.

Chairman: This is €5 billion for Anglo?

Mr. Brian Goggin: Yes.

Chairman: Thank you. Just one other matter with regard to Deputy O'Donnell's question, in regard to tier 2 ... lower tier 2 subordinated debt. Bank of Ireland's position on that was that was to be protected, yes?

Mr. Brian Goggin: That dated subordinated was to be included in the guarantee, yes, not undated.

Chairman: Okay, thank you.

Mr. Brian Goggin: And for the reason I explained.

Chairman: Okay. I will bring you back in again Deputy O'Donnell, as we wrap up. Just to move on. Deputy Pearse Doherty. Deputy you have ten minutes.

Deputy Pearse Doherty: Thank you, a Chathaoirligh, agus fáilte chuig an gcoiste fiosrúcháin. Can I begin by asking in relation to the Bank of Ireland strategy 2004 to 2009? The earnings per share and the profit before tax targets 15% plus growth per annum, which might appear ambitious in a relatively mature market. What was your view on this and did this lead to going into areas of higher risk?

Mr. Brian Goggin: No. I do not believe so, Deputy. I mean, the expression of strategy and boiling it down to an EPS kind of target is to simplify it. The EPS is an outcome of the strategy, which is pretty obvious. Did the desired outcome influence the level of growth? No, I think the level of growth was built up from all of the different components of the group. We decided that we would stick to our core geographies. We looked at a whole array of different areas of possible expansion. We came back to our core markets in our core businesses. And the level of growth that we envisaged to produce an earnings per share in mid-teens was a function of a multiplicity of moving parts.

Deputy Pearse Doherty: And at that time, and we've heard that ... you provide evidence in relation to the pilot scheme, but you did start to go into high risk areas. Is that correct?

Mr. Brian Goggin: I'm not quite sure what you mean by high risk areas-----

Deputy Pearse Doherty: For example, we've talked about the pilot scheme in relation to the €25 million that was approved up to €100 million in 2003, which was deemed high risk lending.

Mr. Brian Goggin: Yes, well ... that ...Yes ... Actually when you read the paper, it talks about higher risk and return. The headline is a little misleading but you're absolutely correct. That is what the headline said. The actual paper refers to higher risk, higher reward lending. And that's perfectly acceptable. You know, it's about adjusting risk relative to return, but this particular initiative was extremely modest. It was to position Bank of Ireland ... it really was to support residential property development, that's what it was really about. And, if I might add, when that unit grew over time, in 2006, we decided to amalgamate it and integrate it in with the more sophisticated specialist higher order property team in corporate banking.

Deputy Pearse Doherty: Okay. Moody's, for example, in 2007-----

Mr. Brian Goggin: What are you referring to, Deputy?

Deputy Pearse Doherty: I'm going to mention that now. We can see it in relation to the core documents BOI ... B1, Vol. 1, page 95, which is the property concentration in the group's loan book. Moody's-----

Mr. Brian Goggin: Yes, I'm there. Hold on. Yes-----

Deputy Pearse Doherty: There's a number of pages there-----

Mr. Brian Goggin: Yes, yes.

Deputy Pearse Doherty: Page 97, which talks about construction and property accounted for 359% of our core ... of our tier 1 capital at the end of September 2007, up from 345% three months earlier, and 275% at March 2006. Moody's also gave you a grading at that time in relation to property concentration and the grading was D. Can you outline to the committee how many grades does Moody's have or grades do Moody have?

Mr. Brian Goggin: Oh, Deputy. I'm afraid I really wouldn't have that level of granular detail at hand-----

Deputy Pearse Doherty: Well-----

Mr. Brian Goggin: I mean, the different rating agencies had different metrics-----

Deputy Pearse Doherty: If we look at Moody's website for example, we will see that they grade banks from A to E. Would that be correct? Would that be your understanding?

Mr. Brian Goggin: Well, if you've checked it, I'm sure it is correct.

Deputy Pearse Doherty: So a D rating would be quite low, would that be correct?

Mr. Brian Goggin: Yeah, but a D is just for a component, it's not an overall D rating. It's a D rating for the sectoral concentration.

Deputy Pearse Doherty: And you also received a D rating for borrower concentration, meaning that you were lending too much to individual ... individuals. Would that be a correct assessment?

Mr. Brian Goggin: If that is what it says, yes.

Deputy Pearse Doherty: And you go on to say that you ... selling off some of the loans of the top 20 borrowers would help your rating with Moody's at that time.

Mr. Brian Goggin: Yes, well I mean, you know, a rating agency rating, as you will appreciate, is quite a sensitive one for a bank to endeavour to manage. I mean, this determination is made now when the bulk of the lending had taken place. It's the end of 2007-----

Deputy Pearse Doherty: The point I'm making is you-----

Mr. Brian Goggin: You're correct.

Deputy Pearse Doherty: But you've identified ... to deal with your concentration risk, you've identified the top 20 borrowers as a way of reducing your concentration risk.

Mr. Brian Goggin: Yes, if it was possible to dispose of those.

Deputy Pearse Doherty: So would that suggest that your bank, under your guidance, lent too much to individual ... to certain individuals that increased the concentration risks to individual borrowers?

Mr. Brian Goggin: I don't believe so and let me explain to you why I say that. I looked at the top 15 property exposures at the end of 2007 and they summed to something in the order of €5 billion. So €5 billion out of the €38 billion ... €38 billion was the number that was mentioned by Deputy McGrath earlier on. It's the correct figure in relation to the totality of the property and construction segment. So we have 15 borrowers, make up €5 billion of the entirety of €38 billion. And just to give you a little bit of perhaps granularity if you think it would be helpful-----

Deputy Pearse Doherty: Okay-----

Mr. Brian Goggin: -----around the individual split of that, the high ... the highest single exposure was €620 million.

Deputy Pearse Doherty: Okay, I appreciate that. I'm going to move on because time is tight. You carried out due diligence on Irish Nationwide at the beginning ... at least it's reported that this was done prior to 7 September. Why did Bank of Ireland carry out due diligence on Nationwide?

Mr. Brian Goggin: I don't believe we carried out due diligence on Irish Nationwide. The meeting at the weekend of 6 and 7 September was in relation to an assessment of the liability profile of Irish Nationwide in the aftermath of a significant downgrading from a rating agency-----

Deputy Pearse Doherty: Yes.

Mr. Brian Goggin: -----and the liquidity pressure that Nationwide was experiencing.

Deputy Pearse Doherty: Okay. I'm going to have to quote from AIB's board minutes of 7 September 2008. This is in reference to the meeting-----

Mr. Brian Goggin: Sorry, your reference source, Deputy, is?

Deputy Pearse Doherty: Is AIB board minutes of September ... 7 September 2008. They are in document AIB - C3b, Vol. 2, page 41. And this is in reference to the meeting that Bank of Ireland had with the regulator, with AIB, with Irish Nationwide, looking for liquidity of €2 billion each, from each institution, which you refused to give without a Government guarantee.

Mr. Brian Goggin: Okay.

Deputy Pearse Doherty: And in that, it says that ... in that, it says that Bank of Ireland had carried out due diligence on Irish Nationwide and that there was an estimated 30% to 50% estimated by Bank of Ireland. The quote is, "The quality of the loans was suspect and could require write-downs ranging from a benign 13% estimated by the FR [Financial Regulator], to 30%/50% estimated by Bank of Ireland, which had previously conducted a due diligence review of the institution."

Mr. Brian Goggin: I'm not familiar with the figures and I don't quite understand how AIB would have had access to that information. But, I think I can recall what it might relate to. But I might not be correct. However, in an attempt to be helpful, I'm willing to offer my view, but I'm surprised that AIB were able to quote that level of detail.

Deputy Pearse Doherty: The key question is ... and you've answered this, that you never carried out due diligence, you never considered taking over Irish Nationwide, is that correct?

Mr. Brian Goggin: No, that's not correct.

Deputy Pearse Doherty: Okay.

Mr. Brian Goggin: What I want to refer you to is that at some stage ... and I can't recall when, it could've been ... it could've been late 2006, it could've been 2007 ... I just can't recall. We did look at the possibility of acquiring other entities in the Irish marketplace. This was a very informal review. And we did look at Irish Nationwide. I would not, in any respect, refer to it as a due diligence exercise.

Deputy Pearse Doherty: Okay.

Mr. Brian Goggin: But we did look at it. I don't believe we ever even brought it to the board of the bank. We concluded that this was not an entity we would wish to acquire. That's the only recollection that I have, Deputy Doherty-----

Deputy Pearse Doherty: That's fine.

Mr. Brian Goggin: -----and if it was as sophisticated as detailed due diligence with the numbers you referred, it certainly would've come to the board of the bank.

Deputy Pearse Doherty: Okay, that's fine. I'll just in the last question I have, I want to talk about, again, the night of the guarantee. The minutes that suggested you had a draft guarantee would've been approved by the members at a later meeting that were present at the original meeting. Would that be correct?

Mr. Brian Goggin: Sorry, I'm confused now-----

Deputy Pearse Doherty: The minutes that suggest that the draft guarantee was produced-----

Mr. Brian Goggin: Our Bank of Ireland draft guarantee?

Deputy Pearse Doherty: Yes. Was produced for you, would've been approved by the members in attendance at that meeting at a later stage. Would that be correct?

Mr. Brian Goggin: No. The Bank of Ireland had no ... there was no draft guarantee.

Deputy Pearse Doherty: Okay.

Mr. Brian Goggin: The liquidity committee meeting minute, you know, was incorrect. And that's been-----

Deputy Pearse Doherty: Was that minute approved by the committee at a later stage?

Mr. Brian Goggin: Sorry?

Deputy Pearse Doherty: Was that minute approved by the committee at a later stage?

Mr. Brian Goggin: No.

Deputy Pearse Doherty: No, okay.

Mr. Brian Goggin: Deputy, and ... sorry, let me explain to you why. We were having liquidity meetings every day. Some days we had several liquidity meetings. We weren't formalised enough to be approving the minutes of subsequent meetings. Perhaps we should have and that's when it would've been picked up.

Deputy Pearse Doherty: My final question in this here is, you mentioned that you were informed around 2 o'clock by the Government - I think you mentioned the Taoiseach or the Minister of Finance - that all six institutions would be guaranteed. Can you inform the committee, was the AIB representatives at that meeting when that was said? And can you also inform the committee, why ... sorry, can you also inform the committee, was there a draft document or statement issued to you that contained the words that the institutions were solvent and the system was solvent, and that you asked for them to be taken out? And did you suggest that Nationwide or Anglo were an institution that may not warrant that statement?

Mr. Brian Goggin: Now you've a number of questions there. I don't believe, and I can't recall, if a document was given to us. I think it may have been read out ... the content of it may have been read out. My recollection of events is that, when we came back into the room with the confirmation that we could each provide the €5 billion, yes, AIB were with us in the room at that point. And if my recollection is correct, that was the point at which, my recollection is, that we were informed that it was a blanket guarantee. And, the third part of your question was to do with the-----

Deputy Pearse Doherty: With the solvency, did you suggest that-----

Mr. Brian Goggin: Oh yes, I think ... my recollection is that AIB, I think, made the running on it but we certainly supported the view-----

Deputy Pearse Doherty: Sorry, the view is ... did you-----

Mr. Brian Goggin: That they should not include a solvency reference in the press release.

Deputy Pearse Doherty: But did you express the view that the two institutions that I mentioned, namely, Anglo and Nationwide, did not warrant the statement that they were solvent?

Mr. Brian Goggin: That's a very specific question. I can't for certainty say but it certainly would have been inferred in our thinking and in our input.

Deputy Pearse Doherty: Thank you.

Chairman: Thank you. Senator O'Keeffe. Senator, ten minutes.

Senator Susan O'Keeffe: Thanks, Chair. Mr. Goggin, on page 26 of core document BOI, Vol. 1, B2-----

Mr. Brian Goggin: Hold on one tick now.

Senator Susan O'Keeffe: It was 11 November-----

Mr. Brian Goggin: Oh, sorry, Deputy, I, B2, yes.

Senator Susan O'Keeffe: I've just given-----

Mr. Brian Goggin: Which page?

Senator Susan O'Keeffe: Page 26, I'm just making sure the guys have it, 11 November 2003, in a paper prepared for the board - the quarterly risk review points out that:

> [...] a shortage of front-line credit skills is evident at Branch/BRM level and the number of Commercial Branches rated unsatisfactory has increased to 9. [...] Relationship managers continue to be under pressure due to portfolio-size, quality of support and inadequate credit skills.

There is more than that but Mr. Goggin what observation would you make? That was in 2003 that observation was made to the board of Bank of Ireland, the court of Bank of Ireland?

Mr. Brian Goggin: Yes, it was previously discussed at the group risk policy committee so this was an escalation up of the group risk policy committee's examination of it. Yes, this was a very serious matter and I think it goes to the heart of the governance structures in Bank of Ireland. You've got a distributed network with 300 branches or 250 branches, you know, the normal distribution applies. Some of them will perform and conform, you know, superbly well. The majority of them will be standard and you will have, you know, a number that will not meet the standard at a point in time. This was identified through the credit review process. It was the third leg of the three legs of the fence in lending in Bank of Ireland. So this was identified, it was escalated, it was taken most seriously and there are papers somewhere because I read them in relation to how the GRPC - the group risk policy committee - view this and the direction it gave to the head of retail banking at the time in terms of resolving these issues. And I know there's a paper somewhere else. I haven't got it cross-referenced but I know that in a period post-this, there was a very positive updating report on the success in addressing some of these issues. This would have been, you know, quite a normal escalation of an issue taken most seriously and escalated right to the very top of the organisation.

Senator Susan O'Keeffe: Thank you. On BOI - B1, Vol. 1, page 13 running into page 14-----

Mr. Brian Goggin: Yes.

Senator Susan O'Keeffe: A court minute extract of 7 July 2008 in which you, Mr. Goggin, assured the court that you:

> ...keeps in regular contact with the Financial Regulator and expressed confidence that the Regulator has contingency plans in place (which would be likely to require the Group to play a part) should another entity appear likely to fail. In subsequent discussion, Mr Goggin confirmed that he could not envisage any circumstances where BoI's equity would be put at risk in helping to prevent the collapse of a competitor.

What were those contingency plans that you speak of with the regulator and where did they surface subsequent to that, if indeed they did?

Mr. Brian Goggin: It's a good question. I read this and I have it marked in my own papers-----

Senator Susan O'Keeffe: Yes.

Mr. Brian Goggin: And I asked myself the very same question in preparing for my evidence here today. This was an opinion that I expressed. I didn't have any hard information to support the view other than I was spending quite a considerable period of time, week in week out, from late 2007 right through to 2008 at meetings with the Central Bank and Financial Regulator-----

Senator Susan O'Keeffe: Did you express confidence, in fairness, Mr. Goggin? You expressed confidence that the regulator had a contingency plan?

Mr. Brian Goggin: I did, well-----

Senator Susan O'Keeffe: That was an opinion you are saying.

Mr. Brian Goggin: Sorry, Deputy.

Senator Susan O'Keeffe: Thank you.

Mr. Brian Goggin: If you had been to as many meetings as I had been to, if you had been interrogated to the extent I was by the authorities in terms of the emerging liquidity position in the markets, in Bank of Ireland, these were extremely detailed questions, the kind of questions you would expect of a regulator or a central bank. I could only conclude from those and the information that we were more than happy to present that a contingency plan was being developed.

Senator Susan O'Keeffe: But you never saw one?

Mr. Brian Goggin: No, I did not, no.

Senator Susan O'Keeffe: And you never asked for one?

Mr. Brian Goggin: Well, I didn't but had I asked for it, they wouldn't have given to me, I'm sure.

Senator Susan O'Keeffe: Did one appear on the night of the guarantee at any point in the conversation?

Mr. Brian Goggin: No.

Senator Susan O'Keeffe: Do you believe there was one in place?

Mr. Brian Goggin: I can't truthfully answer that question, Senator. One would hope there was and I guess it's a matter that you'll pursue with the official side when you get to speak with them. But I couldn't say for certain.

Senator Susan O'Keeffe: On the morning of the night of the guarantee, were you ... had you been advised by that point that Depfa and Fortis banks were in trouble?

Mr. Brian Goggin: We would have been generally aware. Was there an intervention on the morning of the 29th by the authorities on those banks? If there was, I certainly would have been aware of that, yes.

Senator Susan O'Keeffe: But you don't remember being informed by anybody in particular, say, by the Department of Finance or the Central Bank?

Mr. Brian Goggin: Oh, no, no.

Senator Susan O'Keeffe: At that meeting with the Central Bank?

Mr. Brian Goggin: Oh, no. If I had been informed, it would have been by own team.

Senator Susan O'Keeffe: Okay. You ... did you meet with a representative of Anglo Irish Bank at lunchtime on the Monday?

Mr. Brian Goggin: On Monday the 29th?

Senator Susan O'Keeffe: Yes.

Mr. Brian Goggin: I met with two representatives of Anglo Irish Bank at 2.30 p.m. that afternoon.

Senator Susan O'Keeffe: For what reason?

Mr. Brian Goggin: When I returned from Dame Street - I mentioned in my evidence earlier on that I had a meeting in Dame Street with Central Bank - I got back to my office around 12.30, the governor of the bank, Richard Burrows, came into me and said that there was a request in from the chairman of Anglo Irish Bank for an urgent meeting. He was not aware of what the meeting was for but I guess given the turmoil that was prevailing, it was in all reasonableness to do with that. We agreed to the meeting as a matter of courtesy and we set the meeting for 2.30 p.m. that afternoon on 29 September. Both the chairman and the chief executive of Anglo Irish Bank came to Bank of Ireland, Baggot Street, for that meeting. They indicated to us or mentioned to us that they had a liability maturing the following day, i.e. the 30th, in the amount of, I think it was €1.5 billion, it could have been €2 billion. It was of that magnitude, I can't remember precisely and that they would be unable to honour the commitment. They then asked for Bank of Ireland to acquire Anglo Irish Bank.

Senator Susan O'Keeffe: And what did you say?

Mr. Brian Goggin: Well, we had absolutely no interest in acquiring Anglo Irish Bank and we politely told them that we could not be of assistance.

Senator Susan O'Keeffe: At all, you didn't offer any assistance?

Mr. Brian Goggin: No, none.

Senator Susan O'Keeffe: Did they leave at that point?

Mr. Brian Goggin: They did.

Senator Susan O'Keeffe: Okay. When you went to Government Buildings later that night, did you ... when you were talking in your first round of meetings with the Taoiseach and the advisers and the Minister, did you say, "Look, we've had them in, guys. We had this meeting, they've asked us to------

Mr. Brian Goggin: Oh, yes, absolutely and the governor of the Bank of Ireland would have shared that information with the Governor of the Central Bank at the pre-arranged 4 p.m. meeting later on that afternoon on the 29th. I mentioned that in my evidence earlier on.

Senator Susan O'Keeffe: Yes, so everybody in the room knew ... did they ... everybody knew that Anglo had knocked on your door earlier that day?

Mr. Brian Goggin: Oh, yes.

Senator Susan O'Keeffe: And AIB also had had a call, did you recall whether that happened, whether there was mention made of that as well?

Mr. Brian Goggin: Yes, let me just think about that. Yes, when the chairman and chief executive of Anglo were leaving us on the afternoon of the 29th, they indicated to us from my recollection that they were going to see AIB.

I subsequently learned later on that evening that AIB had refused to meet them, so the meeting, as I understand, it never occurred.

Senator Susan O'Keeffe: So, let's just be clear, this was a huge day. It was the worst day of your life I think you said. You two banks were obviously under extreme pressure, you had been for quite a while. You asked for a meeting with the Government, I think you said yourself, to make sure they were informed of the level of the danger----

Mr. Brian Goggin: Yes.

Senator Susan O'Keeffe: And you arrived there with no documents to give them. Just let's be completely clear, you had nothing to give them.

Mr. Brian Goggin: I didn't need to have any documents, Senator, with respect, to give them. The issue was very clear. A major bank was going to collapse the following day. I didn't need to produce any documentary evidence. I didn't receive any evidence in the meeting earlier in the afternoon from Anglo Irish Bank. It was an oral conversation. There were no papers.

Senator Susan O'Keeffe: Okay. On page 21 of document BOI, Vol. 1, C3b, again----

Mr. Brian Goggin: Hold on, sorry, sorry----

Senator Susan O'Keeffe: Yes.

Mr. Brian Goggin: C3b, page?

Senator Susan O'Keeffe: Page 21, again this refers ... it's a note after the one that you already discussed with that committee, you say "RB", I assume Richard Burrows-----

Mr. Brian Goggin: Sorry, where are you?

Senator Susan O'Keeffe: AOB, last sentence. "RB stated that the Group should make the point, when every (sic) possible, that it did not request the guarantee and did not require it." What is that about? That was on 29 September 2008 at the group liquidity meeting, which you attended, and that would have been obviously prior to going to Government Buildings. What's that about? I think you've said that you did need a guarantee. Why did you go to Government Buildings if it wasn't for a guarantee?

Mr. Brian Goggin: Well I think ... I think I explained that. I think I ... I've already explained that, Senator.

Senator Susan O'Keeffe: I don't think-----

Mr. Brian Goggin: I ... I'm just trying to collect my thoughts here in relation to your first question. Yes, no, the "RB" in this case is not Richard Burrows, that's-----

Senator Susan O'Keeffe: It's Richie Boucher, is it?

Mr. Brian Goggin: Correct.

Senator Susan O'Keeffe: Yes. Anyway. He said-----

Chairman: Onto the question, Senator.

Senator Susan O'Keeffe: Well I'm trying to just-----

Chairman: Sure, yes, indeed.

Senator Susan O'Keeffe: Yes. Please? So your response is?

Mr. Brian Goggin: Your question is?

Senator Susan O'Keeffe: I'm asking you why was that said, that we did not request the guarantee and did not require it? Why then did you go to Government Buildings, what was your concern if it wasn't to ask for a guarantee?

Mr. Brian Goggin: My concern ... my concern in going to Government Buildings was in relation to one specific issue, i.e., a major bank was going to default the following day. The issue of a guarantee was proposed as a possible solution in terms of trying to help the Government deal with the issue. The point that's being made here, as I interpret it, is that Bank of Ireland, in isolation, absent any other issues in the marketplace, did not require a guarantee.

Senator Susan O'Keeffe: So-----

Mr. Brian Goggin: It was the imminent collapse of Anglo and the mechanism around providing stability to the banking system ... required all of the banks needing a guarantee to be quite honest about it.

Senator Susan O'Keeffe: Okay, so let me just be clear, Chair. So you ... so while ... while AIB did ask for a guarantee, you did not?

Mr. Brian Goggin: I think ... I think we're splitting hairs.

Senator Susan O'Keeffe: I don't think we are, Mr. Goggin.

Mr. Brian Goggin: We ... we're not ... we all asked for a guarantee. We both asked for a guarantee.

Senator Susan O'Keeffe: Well then why did ... why is this statement here that, wherever possible it did not request a guarantee and did not require it? I don't understand. I'm sorry. I'm not trying to be difficult, I just don't understand. I don't understand why hours before you went to Government Buildings, in your own minutes, it says we're not going to be asking for it and we mustn't mention it, and then when you got there you asked for it.

Mr. Brian Goggin: Well ... no ... we asked for it in a certain context.

Senator Susan O'Keeffe: Yes, of course-----

Mr. Brian Goggin: Look, look, Senator, look, you couldn't guarantee ... I think I mentioned to Deputy McGrath earlier on, at one stage during the evening, in the early part of the evening, there was a suggestion that one bank be guaranteed, that one bank being Anglo Irish Bank. Now, picture the scene, Anglo Irish Bank gets guaranteed, nobody else is guaranteed. Where do you think all the deposits are going to end up the next day? There all going to be down in Stephen's Green, the rest of the banking system is in chaos. So you ... in asking for a guarantee it was in the context of the totality ... I think ... I think the reference here, I can't be certain, was in relation to the fact that Bank of Ireland, on its own, wouldn't have needed a guarantee. Look, the bottom line is, we did need the guarantee, if that answers your question.

Senator Susan O'Keeffe: Thank you.

Chairman: Okay, thank you.

Senator Susan O'Keeffe: Thank you.

Chairman: Mr. Goggin, I'm just going to refer there to a document, BOI - Vol. 1, B1, page 29.

Mr. Brian Goggin: Page 29, B1.

Chairman: And this relates to a retail financial services Ireland presentation, it's a Bank of Ireland presentation as you can see, to court ... May ... in around 2004, May 2004.

Mr. Brian Goggin: Yes, I got that, yes.

Chairman: Yes. Now, it would be indicated that the levels of earnings per share on profit before tax in Bank of Ireland ... that the targets for this, at 15% plus per annum ... that then might appear ambitious ... in a relatively mature market. But the first question I'm going to kind of arrive at here was, how much ... when you ... in 2004, how much of the model, that you were then developing, was driven by activities of competitors rather than looking fully at the quality of lending? What was the thinking going on in Bank of Ireland in and around 2004? Was it to grow the book, was it to structure the governance, where ... where were you at this time of this presentation?

Mr. Brian Goggin: It was ... it was all of the above. This wasn't a menu where items were superior or ... to one another. I mean, this was a matrix, they weren't mutually exclusive, you didn't decide to do A at the expense of B. We, at that time, were facing competitive pressures. The competitive pressures, I think, that are referenced in this piece you're referring to, Chairman, and in the subsequent paper, is more to do with the arrival of Danske Bank, if I recall it correctly, the competitive aspects of Bank of Scotland (Ireland) ... it was a whole landscape. And the primary concern we had here was not to do with lending standards but it was to do with product innovation, pricing, customer service ... Bank of Scotland I think had bought a bunch of ESB shops, they were going to open on Saturdays, these were the competitive dimensions that were weighing on our thinking, as I recall it.

Chairman: Okay, alright, so we'll just move on to page 31 of the same core document. There's a number of bullet points here in the ... and I'd like to talk about the third one down which is "Sales and Revenue". It's just coming up in a moment.

Mr. Brian Goggin: I ... I have it here in front of me.

Chairman: Yes. And yes I ... just to let it come on the screen there as well. And it says

... this is a projection of what success will look like in 2007. The presentation is being made in 2004 as we've already discussed. "Sales Culture firmly embedded-profitable market share growth." Now, this ... can you elaborate on what that target actually means? The ... coming back to earlier questions this morning, does this mean chasing the market, does it mean that we're going to adopt a model to reflect what's happening in the wider market, Danske Bank and other banks you mentioned at the moment, earlier this morning, we spoke about Ulster Bank and the introduction of 100% mortgages ... is this about Bank of Ireland reshaping itself to deal, what was then, the existing market norm?

Mr. Brian Goggin: No the ... the sales culture, if that's what ... I think you're referring to, Chairman, was a ... a process embedded in Bank of Ireland. The actual ... the actual programme that we invested in was a programme in the early 1990s that we brought in from the US, and it was, if I remember correctly, the Cohen Brown process. And this was about how you data mine your customer base, how you get a significant higher share of wallet. And in Bank of Ireland, and Bank of Ireland was acknowledged and recognised for this across Europe, we built one of the most successful bank assurance models in European banking and sales integration in that was very, very important. So it was about ... it was about customer relationship managers identifying, in their customer base, prospects that would be suitable for investment products, pension products, etc. etc., and the whole, kind of, objective behind this retail strategy was to ensure that our product penetration, across the more valuable segments of the retail customer base, were significantly increased from where they were, in the face of the kind of competition that was coming at us.

Chairman: Two ... two questions on that, Mr. Goggin. One is, if, kind of, if it was a colloquial term that ... that brings me back to that time, being informed that someone was under-borrowed, which meant that they had a potential to take up more loans even if they weren't looking for a loan.

Mr. Brian Goggin: To take more.

Chairman: By data mining, does that mean to identify people who are under-borrowed?

Mr. Brian Goggin: Well the ... the data mining would have referred to the entire product suite. Lending ... lending was just one ... it was an important product, but it was just one product.

Chairman: But were Bank of Ireland engaged in the process of looking through that data mining and say, well ... Mr. Lynch looks like he has the potential, on his earnings, to borrow another €40,000 or another €400,000 a year, and Bank of Ireland then would look at maybe what sort of products would be available for him to avail of, given the credit that he would have access to?

Mr. Brian Goggin: No I ... I think, you know ... I was involved in this process way back at that time because I ran part of the retail network in ... in the east of Ireland. My ... my recollection of it is that it came at it from the other angle. So Mr. Lynch is a very important customer of ours and he only has one product with us, yet he'd have a profile that suggests he should be eligible ... or might be eligible for this product, that product and the other product. We also had, I suppose, the benefit of-----

Chairman: And would they get a call ... would Mr. Lynch being ... not me, but some other person maybe ... would Mr. Lynch then get a call from the bank saying, "We got all these products, and we'd like to talk to you about them"?

Mr. Brian Goggin: Yes.

Chairman: Okay. And were there bonuses for the staffs making those calls?

Mr. Brian Goggin: Ah, there were very little bonus payments back in the 90s.

Chairman: No, this is between 2007 and ... between-----

Mr. Brian Goggin: Oh, sorry, sorry, I was referring to the Cohen Brown process.

Chairman: -----between 2004 to 2007?

Mr. Brian Goggin: No, no ... there would have been bonuses, but they would have been ... they would have been structured, as I outlined in my evidence statement, which I submitted back at the beginning of April, you know, on a whole range of different factors, including leadership skills, customer satisfaction ratings, audit ratings, credit review ratings, sales, targets, lending, this ... you know, it would have been the complete suite.

Chairman: Okay, if somebody was to take out an investment product, or let's say, to invest in a buy to let because they had a lot of equity in their property, they bought it in 1980s and so forth, which would be on the ... typical customer of most banks in and around the early 2000s. A lot of people would have their mortgage well pared down and there would have been massive equity on their property because of house inflation at the time. Were there bonuses for those type of products?

Mr. Brian Goggin: I wouldn't think so. The bonus structure would have been as I outlined in my evidence statement where I gave an indication of the evaluation process that applied to executives and managers. It would have been the totality of the responsibility of the individual, so it would have taken in ... it wouldn't have been as granular, to say if you sold A, you got B. I don't believe it was that granular.

Chairman: Okay, but you're not categorical in saying that there's not-----

Mr. Brian Goggin: No, but I'm pretty certain.

Chairman: Okay. Senator D'Arcy. Ten minutes, Senator.

Senator Michael D'Arcy: Mr. Goggin, you are very welcome.

Mr. Brian Goggin: Thank you.

Senator Michael D'Arcy: Can I return back to the day of the guarantee, and you were in Dame Street?

Mr. Brian Goggin: On the morning of the 29th I was in Dame Street. Yes.

Senator Michael D'Arcy: Who did you meet on that morning?

Mr. Brian Goggin: I can't recall specifically who I met, but the majority of the meetings that I attended from late 2007 onwards were invariably chaired by the Governor of the Central Bank, now, and he would have had in attendance with him quite a number of officials.

Senator Michael D'Arcy: And did you meet the Governor of the Central Bank of Ireland on that morning?

Mr. Brian Goggin: On that morning ... I could have. I can't be absolutely certain.

Senator Michael D'Arcy: What was the primary message from that meeting to yourself?

Mr. Brian Goggin: The primary message from that meeting is would I consider taking over Irish Life & Permanent in a scenario where Anglo Irish Bank and Irish Nationwide would already have failed and a Government guarantee would have been provided to all of the remaining surviving banks. Now that was a pretty significant ask.

Senator Michael D'Arcy: It was a big message.

Mr. Brian Goggin: Well it was, and it also went to the core of, I suppose, the evolving and rapidly developing situation. I should just state for the record, that the concern about Irish Life & Permanent was to do with liquidity not to do with asset quality.

Senator Michael D'Arcy: And, can I ask Mr. Goggin, I mean, effectively, it was an attempt to reconfigure Irish banking. Would that be a fair assessment?

Mr. Brian Goggin: I think its purpose was to prevent a sequential collapse of individual banks and to provide stability to the banking system.

Senator Michael D'Arcy: And in that conversation was it made known to you that Anglo Irish Bank could possibly default the next day?

Mr. Brian Goggin: No, that was not made clear to me at the meeting in Dame Street. When I became aware of the virtual certainty of Anglo defaulting the next day, it was the chairman of Anglo Irish Bank who informed me of that in the presence of my own governor at 2.30 p.m. that afternoon.

Senator Michael D'Arcy: And at the meeting that was held with your governor and the Governor of the Central Bank of Ireland at 4 p.m., was your governor made aware that Anglo potentially - you used the term "virtual certainty" - would default the next day?

Mr. Brian Goggin: Oh he was. Sure the governor of Bank of Ireland, Senator, was at the meeting with me at 2.30 p.m. earlier that afternoon when the chairman and chief executive of Anglo Irish came to us.

Senator Michael D'Arcy: I understand that, but what I am trying to explore is the Governor of the Central Bank of Ireland, was he absolutely aware that Anglo Irish Bank, in your term, was virtually certain to default the next day?

Mr. Brian Goggin: Oh, sorry. I apologise. I got the two governors mixed up. My mistake. No, do you see ... the Governor of the Central Bank and officials of the Central Bank were always extremely circumspect in ensuring that they did not divulge the names of other banks to a bank. So many of the meetings I had when they would have talked about hypothetical situations, they would have talked about bank A, B, C or D or bank 1, 2, 3 and 4. At various stages over the period from late 2007 right up to 29 September, I often came out of Dame Street scratching my head as to which bank was A and which bank was D. It seemed to change and vary based on the conversation, but I never knew. That-----

Senator Michael D'Arcy: Can you clarify this for me though, please, because I think it is important? The meeting you held in Dame Street that morning-----

Mr. Brian Goggin: Yes.

Senator Michael D'Arcy: -----when you were asked to take over IL&P, was it clear that it was IL&P? Did you know it was IL&P?

Mr. Brian Goggin: Oh I did, yes.

Senator Michael D'Arcy: And did you also-----

Mr. Brian Goggin: I am sorry. Let me be very clear. From my recollection, that was probably the first meeting I had in Dame Street when specific names of banks were put on the table.

Senator Michael D'Arcy: And was it also made clear to you that two banks were named, Anglo and INBS were going to be the two banks that would be not entering a reconfiguration process?

Mr. Brian Goggin: Yes, the scenario ...and remember this was a hypothetical scenario now. I wasn't being asked to take over Irish Life & Permanent on that very day, as I had been asked that afternoon in relation to Anglo, so this was a hypothetical situation. It was presented on the basis that the Anglo and Nationwide would have already failed and a Government guarantee would have been provided for the remaining banks.

Senator Michael D'Arcy: Okay, and in that scenario, for you, as an experienced banker, Mr. Goggin, is it possible that the ECB would not have known that these conversations were being held in the Central Bank of Ireland on 29 September?

Mr. Brian Goggin: Oh, Senator, I just couldn't offer a view on that. Our relationship was with the Central Bank and that's as far as it went. I have no idea what conversations the Central Bank would have had with the ECB on these matters. I would add, that the ECB at that juncture, I don't think, had a regulatory responsibility for banking. It had a monetary responsibility across the eurozone. I don't think it had a regulatory responsibility.

Senator Michael D'Arcy: Can I move on please to document BOI - B2? I'm just going to talk in the general about this document.

Mr. Brian Goggin: Which page are you on?

Senator Michael D'Arcy: Sorry, it is BOI - B2, Vol. 1. I'm just going to talk about the document in general.

Mr. Brian Goggin: Yes.

Senator Michael D'Arcy: A term keeps coming up, Mr. Goggin. It is, "Bank of Ireland to protect the franchise...". Is that a term that you understand?

Mr. Brian Goggin: Oh, I do indeed.

Senator Michael D'Arcy: Could you explain to the committee what protecting the franchise means?

Mr. Brian Goggin: Bank of Ireland had a market share across most of its product lines, ranging depending on which product line one would pick, but market shares ranging from kind of high teens right up to mid-30s, mid-30s in the case of working accounts or current accounts. As you are aware, Bank of Ireland had a significant distributed network, i.e. through its branch channel. So the Bank of Ireland brand and Bank of Ireland presence in the marketplace was of a significance in terms of supporting customers, supporting the economy, etc. So that was the Bank of Ireland franchise - a very strong brand, a very trusted brand, so our franchise was our customer base, our propositions and the whole integrity of Bank of Ireland in Ireland.

Senator Michael D'Arcy: Can I move to BOI - R3b?

Mr. Brian Goggin: Just give me a second. I've got that. Yes.

Senator Michael D'Arcy: I'm actually on page 9, but it is a group response to a committee meeting on 25 August 2003.

Mr. Brian Goggin: Yes, yes.

Senator Michael D'Arcy: You have an issue with Dame Street, with the Governor, chairman of IFSRA and I'm going to read a quotation.

Mr. Brian Goggin: Which page are you on now?

Senator Michael D'Arcy: Page 8, please. Halfway down, bullet point 1, 2 and 3. Bullet point 4.

Mr. Brian Goggin: One, two, three, four. Yes.

Senator Michael D'Arcy: This is a follow-on from protecting the franchise:

> It was questioned whether, in writing to the Governor/Chairman, IFSRA had been fully aware of the Group's governance structure (i.e. that GRPC is the Court sub-committee for dealing with risk policy in the first instance) or whether this could be seen as implying that IFSRA lacked confidence in Executive Management to the point where it felt that it had to go "over their heads". IFSRA's approach was contrasted with that of FSA. [It was questioned whether] IFSRA was seeking to influence and direct the Group's risk policies. BOI experience with FSA was that, while they express strong opinions from time to time, they do not dictate policy to UK institutions.

I am going to the conclusion, Chairman, on page 9, "It was agreed that prior to issuing any formal written rebuttal, BJG [I think is yourself]-----

Mr. Brian Goggin: That's me.

Senator Michael D'Arcy: -----"and JGC" - is that Mr. Collins?

Mr. Brian Goggin: Correct.

Senator Michael D'Arcy: -----"would seek an early meeting with Dr. Liam O'Reilly, Chief Executive and Mr. Pat Neary, Head of Prudential Supervision. The main objectives of the meeting would be to make them aware of BOI's deep concern and to ask that the IFSRA letters be withdrawn."

Mr. Brian Goggin: Yes.

Senator Michael D'Arcy: Mr. Goggin, the relationship between Bank of Ireland and IF-

SRA leads me to my final question about exceptions, and the exceptions-----

Mr. Brian Goggin: Sorry, where-----

Chairman: You are over your time so I need to push you to the final question.

Mr. Brian Goggin: Which book are you on now?

Senator Michael D'Arcy: I will give it to you - BOI - B2.

Mr. Brian Goggin: B2. Yes. The page?

Senator Michael D'Arcy: Page ... I'm sorry, one moment. Pages 51 to 60, in particular page 55.

Mr. Brian Goggin: Yes.

Senator Michael D'Arcy: Bottom of page 55:

> Bank of Ireland transferred 191 connections to NAMA with aggregate nominal value of €9.760 billion. Cases including policy exceptions have been identified in 139 out of 191 connections (73%).

Can I ask, Mr. Goggin-----

Chairman: Last question, Senator.

Senator Michael D'Arcy: I'm asking the question, Chairman.

Chairman: Yes, indeed.

Senator Michael D'Arcy: Can I ask, Mr. Goggin, was the exception the rule and the rule the exception?

Mr. Brian Goggin: I think, Senator, based on the submission by Bank of Ireland under category 16 and 17 here, that's a very reasonable question. Bank of Ireland had a very, very deliberate policy of keeping credit policy tight and dealing with exceptions on an exceptions basis and I can go back to 1996, when I was appointed to the senior management team at Bank of Ireland and I joined the credit committee for the first time, and we dealt with exceptions back then and I recall at one stage myself even saying, "Why do we consider exceptions? Should we not broaden the policy?" And I got a very early lesson in terms of the culture of Bank of Ireland at that level and I was informed that the policy of the bank was very much to keep the credit policy rigid and tight and to force exceptions into a deliberate decision-making process and I would submit, Senator, that that approach, notwithstanding the fact that the level of exceptions reported here appear high, although the paper is somewhat qualified, I would submit-----

Senator Michael D'Arcy: Very little qualified.

Mr. Brian Goggin: -----that the credit strategies adopted and pursued consistently by Bank of Ireland and its manner of forcing policy exceptions into a very structured and deliberate decision-making process protected Bank of Ireland from the worst of what happened in Ireland in terms of the fallout.

Chairman: Okay, thank you very much. I just want to deal with one matter there, before we move on, and it's core document BOI - Vol. 1, C3b, Mr. Goggin. Earlier there, you said-----

Mr. Brian Goggin: Which page? Which page, Chairman?

Chairman: It's page 4, paragraph 2.

Mr. Brian Goggin: Page 4, yes.

Chairman: It's just to tidy up the issue there with regard to INBS. Did you say earlier that the issue didn't go to the board of Bank of Ireland?

Mr. Brian Goggin: I did, but it was a different issue. I was responding to the question to me, I think it was from Deputy Doherty, in relation to a due diligence exercise that was reported in an AIB board minute. This particular piece refers to the exercise that was carried out-----

Chairman: I'll just explain to the committee-----

Mr. Brian Goggin: -----over the weekend of 6 and 7 September.

Chairman: Yes. It's the court minute extract at 3 October 2008.

Mr. Brian Goggin: Yes, yes.

Chairman: That's all right, yes.

Mr. Brian Goggin: But this is relating to the team that we had put in to the ... into Dame Street on the weekend of 6 and 7 September to review the liability profile of Irish Nationwide. That was a separate issue.

Chairman: Okay. So, the board were aware-----

Mr. Brian Goggin: Oh, they were.

Chairman: -----of the extract there. It says, "Mr. Goggin recalled the conclusion at the previous Court in relation to INBS, that the Governor and Group CEO should open channels of communication directly with Government, at political as well as official level, and confirmed that this had been done and remains active."

Mr. Brian Goggin: Yes, in fact, Chairman, the board of Bank of Ireland met on the Sunday evening, 7 September, to receive management's assessment of the exercise we had been asked to carry out by the regulatory authorities on the Saturday and Sunday of that weekend, so the matter was absolutely reported to the board. The actual minute of that meeting is somewhere in the papers because I recall reading it and I should add that, at that meeting in Dame Street, when we saw the grave situation of Irish Nationwide's funding, we indicated to the regulator that the better option would have been to nationalise Irish Nationwide at that time and to prevent it from having contagion effect across the banking system. And that position adopted by management was endorsed and supported by the board of the Bank of Ireland at that board meeting on the night of the 7 September, Sunday, 7 September 2008.

Chairman: Thank you. Deputy Joe Higgins?

Deputy Joe Higgins: Mr. Goggin, regarding residential investment property lending-----

Mr. Brian Goggin: Are you referring to a document?

Deputy Joe Higgins: No, I'm just going to ask you-----

Mr. Brian Goggin: Oh yes, okay.

Deputy Joe Higgins: -----a few questions. It doubled within Bank of Ireland over 15 months, from 2003 to September 2004.

Mr. Brian Goggin: Which did?

Deputy Joe Higgins: Residential investment property lending.

Mr. Brian Goggin: Yes.

Deputy Joe Higgins: Okay?

Mr. Brian Goggin: Yes.

Deputy Joe Higgins: And that's for lending to people who want to become landlords?

Mr. Brian Goggin: Buy-to-lets, yes.

Deputy Joe Higgins: Buy-to-lets etc., right?

Mr. Brian Goggin: Yes.

Deputy Joe Higgins: Now, at a group risk policy committee on 22 November 2004, reference is made in that to the last discussion on residential investment lending, which took place in April 2003, four concerns were outlined.

Mr. Brian Goggin: Are you referring to the GRPC minute?

Deputy Joe Higgins: Yes.

Mr. Brian Goggin: Can you give me the reference, please?

Deputy Joe Higgins: The reference is BOI - Vol. 1, B2, page 63 to 67.

Mr. Brian Goggin: BOI, B2, pages 60-----

Deputy Joe Higgins: Sixty-three to 67.

Mr. Brian Goggin: Okay, yes. I have that now, yes.

Deputy Joe Higgins: Okay. There were four key concerns I'm just extracting. Significant increase in rental property supply; falling rental yields due to increased capital values; residential investment property lendings are not self-financing except at low loan-to-value ratios; and then the book is mostly new because it expanded so fast. So, they are serious concerns that were outlined in April 2003.

Mr. Brian Goggin: Yes.

Deputy Joe Higgins: Should the bank have seen warning signs and not continue to grow at such a fast level this sector?

Mr. Brian Goggin: Well I, if I ... I can't read all this note now while I'm sitting here, but my recollection is that, you know, this particular discussion, I think there was a proposal to tighten the criteria of lending at that juncture. If I-----

Deputy Joe Higgins: For amateurs?

Mr. Brian Goggin: Yes, yes, correct. Yes, not for professional buy-to-lets.

Deputy Joe Higgins: Yes.

Mr. Brian Goggin: Yes, but if I project forward, I looked at the composition of new mortgage lending in the periods ending September 2005, 2006 and 2007 - I might be one year out in that - but I was, in preparing for today, I was keen to understand the loan-to-value profile of new business origination in a period of quite significant growth and for the RILs, or the buy-to-lets that you're referring to, Deputy, the average LTVs of new business written in those three annual periods, ending September of each year, was in the order of 60%. So, there was significant equity being contributed to the RILs or buy-to-lets in that origination period.

Deputy Joe Higgins: Yes, but, Mr. Goggin, you allowed 40% of amateur investors in that time interest-only loans. Was there not a serious risk in relation to that, by allowing a roll-up of the interest?

Mr. Brian Goggin: No, the interest, Deputy, wasn't rolling up. The interest was being paid, but that's all that was being paid. There was no repayment of capital being made.

Deputy Joe Higgins: Yes, but even so?

Mr. Brian Goggin: Yes, well, look, that was the market at the time. With the benefit of hindsight, perhaps there should have been a tighter policy. You know, the view back then, with the benefit of hindsight, you know, might have led us to a different conclusion. I mean, the view then was-----

Deputy Joe Higgins: Yes, would you ... would you-----

Mr. Brian Goggin: -----you could invest in a buy-to-let. The interest income would more than cover the debt service, i.e., interest, and, you know, the property would obviously, you know, increase in value.

Deputy Joe Higgins: Mr. Goggin-----

Mr. Brian Goggin: That was the investment proposition from the professional buy-to-let borrower.

Deputy Joe Higgins: Yes. Are you aware of the evidence that Professor Bill Black, the US regulator, former financial prosecutor, gave to this committee?

Mr. Brian Goggin: No, I didn't watch his evidence, but I'm broadly aware of-----

Deputy Joe Higgins: Of Mr. Black, yes?

Mr. Brian Goggin: I am indeed, yes.

Deputy Joe Higgins: And he outlined a recipe for banks which he alleges the recipe is: grow like crazy, make terrible quality loans resulting in record profits for a period, senior leadership made wealthy and then catastrophic losses. Do you recognise that in relation to the Bank of Ireland?

Mr. Brian Goggin: I most certainly do not.

Deputy Joe Higgins: Well, your growth ... the growth of Bank of Ireland balance sheet in 2004, 2005 and 2006 was average of 20%. Loans of €9 billion was transferred to NAMA. Your profits double from 2004 to 2007, and you yourself earn €12 million in that time; is that not a justification, or is it, of what Professor Black says?

Mr. Brian Goggin: I don't believe so. I can certainly see where you're coming from in terms of drawing comparisons and similarities, but as I mentioned earlier in my evidence, the rigour around decision-making in Bank of Ireland, the credit strategies adopted by Bank of Ireland, I think ultimately stood the test of time, and Bank of Ireland was not run in the manner suggested by the characterisation of how you've outlined Professor Bill Black's position.

Deputy Joe Higgins: If it stood the test of time, how did €9.9 billion bad loans result?

Mr. Brian Goggin: The economy collapsed, the property market collapsed. Look, no matter how conservative a bank is, and Bank of Ireland was pretty conservative, but it still got caught. No matter how conservative a bank is, if you've got a 60% correction in property prices, no bank can withstand that.

Deputy Joe Higgins: Can I ask you in relation to, just a second ... Yes, Professor Morgan Kelly in 2006 or 2007 could refer to about 30 studies of housing and property bubbles around the world, all of which, without exception, collapsed catastrophically. Why couldn't senior bankers be aware of this, which was well worked out in the previous 20 years, and know that what you were doing with the huge lending, etc., the huge property inflation in prices, that it was going to end in tears?

Mr. Brian Goggin: Well, you know, Deputy, with respect, if for an instant I thought that what we were doing was going to end in tears, I wouldn't have done it. It's very easy to be wise, you know, with the benefit of hindsight. The fundamentals driving the expansion of the Irish economy, the growth in housing formation, our demographics, our economic expansion, you know, these were all feeding into real demand, as such. But, you know, looking back with the benefit of hindsight we can now see what has happened.

Deputy Joe Higgins: Well, I did read myself academic studies in the late 90s which would have predicted what happened in Ireland. I've asked bankers that came in here why they weren't aware of it, but they weren't.

Mr. Brian Goggin: But, Deputy, you know, we ran ... we ran stress tests, you know, and, you know, I'm not sitting here before you all hiding behind stress tests. You know, information and statistics are only as good as the inputs. But we had pretty sophisticated stress testing, modelling, and I did indicate earlier on that in the Basel II process as we, kind of, transitioned towards it, we ran stress tests. One of the stress tests we ran was for a sudden, and I emphasise the word "sudden"-----

Deputy Joe Higgins: Yes?

Mr. Brian Goggin: -----drop of 20% in property values, residential property values.

Deputy Joe Higgins: Yes.

Mr. Brian Goggin: We did not envisage the scale of what happened. That is the truth.

Deputy Joe Higgins: Yes, and-----

Mr. Brian Goggin: And that's what got-----

Deputy Joe Higgins: -----you made that point earlier as well. Mr. Goggin, do you work with Apollo Global Management currently?

Mr. Brian Goggin: I have a relationship with Apollo Global Management, yes.

Deputy Joe Higgins: Yes, it's sometimes referred to as a vulture fund, buying up properties, including those that the taxpayers bailed out. Can I refer to an article in *herald.ie* in 2011, and I'll just quote from the article in relation to that, and ask you if you agree or disagree? It refers to Apollo and to Mr. Goggin buying distressed property loans from the Irish banks at a hefty discount, and then selling them on at a profit, and then:

> Having presided over the creation of a banking crisis with his risky lending policies at Bank of Ireland, Mr. Goggin now hopes to profit from the mess by buying those loans on the cheap. Has this man no shame? Does he not realise the outrage felt by Irish taxpayers, who were raped and pillaged to pay for the bank's blunders, towards the former bank bosses?

Is that fair comment? Do you ... or would you vehemently disagree with that?

Mr. Brian Goggin: I think I'd have to ask for Chairman's guidance here. I'm here giving evidence on behalf of Bank of Ireland.

Chairman: Yes, I'll just come in. It may be without ... not within the terms of reference, so I will give you the leverage, Mr. Goggin, to either choose to respond to it or not.

Mr. Brian Goggin: I'm perfectly happy to accept that, Chairman. Thank you.

Chairman: Okay, thank you.

Deputy Joe Higgins: What's your ruling, Chair?

Chairman: The question drifts outside the terms of reference, so Mr. Goggin cannot be compelled to answer it. Now, I can give you, if you wish to reframe the question or to approach it from a different angle that brings it within the terms of reference, Deputy Higgins, I can facilitate that. But Mr. Goggin is within his rights not to-----

Deputy Joe Higgins: Well, let me just ask Mr. Goggin perhaps that ... from the point of view of ordinary people out there and the taxpayer, who have, I think we can agree, suffered grievously as a result of the banking and bubble crash, and the austerity that was ushered in as a result, do you understand, Mr. Goggin, how victims of that crash might be extremely angry at you and those other bankers, whom they hold responsible for the crash, or a significant part of it-----

Chairman: Deputy.

Deputy Joe Higgins: Do you understand how they would feel aggrieved and angry?

Mr. Brian Goggin: I do.

Deputy Joe Higgins: Are they justified?

Mr. Brian Goggin: You pointed a finger directly at bankers. I would say that the difficulties experienced in Ireland went much wider than that. There was quite a confluence of issues that brought the entire economic collapse to the floor. I don't think all banks should be cast in the same manner. I accept responsibility for the stewardship that I had at Bank of Ireland at the time. But I think, you know, one should be careful in terms of including everybody in generalised statements. But with regard to the, I think, the expression of a kind of support and concern that you've made, Deputy, yes, I can absolutely identify with that, and throughout my working life, I always showed concern and compassion for customers who got into difficulty, and customers got into difficulty even in the good times.

Chairman: Okay, thank you. Just to ... in Deputy Higgins's earlier question to you there, speaking about the risk concentrations and so forth, I want to delve into the issue of interest roll-up facilities that were being provided. Deputy Higgins was talking about the buy-to-let sector, and to talk about maybe the more investment, high development area. And in doing so just to reference the core documents, Bank of Ireland, I think it's page 99 of-----

Mr. Brian Goggin: Of which document, Chairman?

Chairman: B2. BOI - B2.

Mr. Brian Goggin: Page?

Chairman: Page 99. And just in the second paragraph of that, you ... this relates to what was a review of group risk policy committee land bank limits and interest roll-ups, July '08. It's an extract from that, Mr Goggin.

Mr. Brian Goggin: Yes, I have this document, yes. And your ... sorry, your question is, Chairman?

Chairman: Okay. I'll just take the paragraph there for us that says, "The BBRoI Landbank book is approaching its limit and, without any new deals, is generating an additional €50m in exposure every six months as interest roll up facilities accumulate into principal balances." Would you care to comment upon how this was happening, and how the impact of the interest roll-up was actually impacting upon the bank's performance?

Mr. Brian Goggin: Okay. The roll-up of interest in a land bank transaction was perfectly in accordance with policy. We would lend money to a residential property developer A. That site would not generate any cash flow until such time as sales began to flow through. So in assessing the transaction in the first instance and in agreeing to lend them money we would look at the aggregation of the likely outcome in terms of the amount of cash that the developer could expect to generate from selling the houses, and we would build into our loan-to-value limits an allowance for the roll-up of interest during the building period. So that was perfectly normal, perfectly within policy, and perfectly understandable in the context of a residential development transaction.

Chairman: Yes. And in the establishment of these loans and just the process to getting them into place, were there specific financial covenants in place?

Mr. Brian Goggin: Yes, there would have been, yes. Loan-to-value in particular, and that's why I was referencing the fact that the loan-to-value cap would have built in a sum for interest roll-up during the build-out phase.

Chairman: Okay. So, through ... you're saying that there were specific financial covenants in place?

Mr. Brian Goggin: Yes.

Chairman: For these? And did that give the bank then ... did you believe then that the bank had sufficient means to monitor the performance of the increase risk of the loans, loan book that would happen as a result of this?

Mr. Brian Goggin: Yes.

Chairman: Okay, right. Thank you. Moving on I now bring in Senator Sean Barrett, ten minutes.

Senator Sean D. Barrett: Thank you Chairman and welcome Mr. Goggin.

Mr. Brian Goggin: Thank you Senator.

Senator Sean D. Barrett: You said that when you discussed the 100% mortgages with the regulator in mid-2006, your proposal was a 90% one and that he said to you, ‘’It’s not my job to intervene in markets”. I hope I got that-----

Mr. Brian Goggin: Yes, yes.

Senator Sean D. Barrett: Could you expand on that? How ... why did he not want to intervene? Was that not the function of a regulator in many ways?

Mr. Brian Goggin: Well that’s why I asked him the question in the first instance to be quite honest about it. I expressed my concern about the proposal that was intended. If I go back in my history in banking, I can remember back to periods where there were, you know, monetary amounts set as limits for credit expansion. I’m going back now to the pre-euro times, I’m going back to the Irish pound. So my prior experience of regulatory interventions were such that I saw no reason why the regulator wouldn’t intervene in an environment where the market was just getting out of hand and that’s why I proposed and suggested to him in response to the suggestion he was making that this would be a much preferable way of dealing with it from my perspective. And that’s why I volunteered to come out publicly and fully back that decision, were he minded to make it.

Senator Sean D. Barrett: And were there other instances of that so called light-touch regulation’ that you found in your discussions with the regulator?

Mr. Brian Goggin: No. I didn’t have a huge amount of interaction with the regulatory authorities through most of my period as CEO. I became very involved with them from kind of 2007 on. Much of the interaction was occurring, you know, through the regulatory risk and finance areas with the regulatory authorities. I might have an annual relationship type meeting with the Governor and the head of the regulatory body but I had very little detailed interaction on a day-to-day basis.

Senator Sean D. Barrett: And did the regulator come to the bank or did you go to see him?

Mr. Brian Goggin: It’s interesting that you should pick up on that because it was quite significant. It was the only time the regulator ever came to my office. I’d normally, if he wished to see me, he would ask me to come to see him. But on this occasion he actually came to see me.

Senator Sean D. Barrett: And after the introduction of the euro, did the regulation in any way move from Ireland to Frankfurt?

Mr. Brian Goggin: No. No, I don't think ... Frankfurt only, as I understand it, got a remit on the regulatory front in the last year or so.

Senator Sean D. Barrett: So did you ever meet any officials from the ECB?

Mr. Brian Goggin: I did. I was invited to participate in a round table discussion forum, you know, chaired by the then president of the ECB. I think it was an annual or a semi-annual meeting. I didn't make them all but it was more macroeconomic views across Europe. It was an opportunity to network with chief executives of banks across Europe.

Senator Sean D. Barrett: So it was networking rather than regulation.

Mr. Brian Goggin: Yes. There would have been, Senator ... there wouldn't have been any discussion about regulation. The ECB wouldn't have had that brief at the time. It was more to do with monetary policy, the euro, that type of framework.

Senator Sean D. Barrett: And Mr. Trichet was presiding?

Mr. Brian Goggin: He was.

Senator Sean D. Barrett: Was there concern about ... you mentioned about the level of wholesale borrowing, although you're fairly at ease with it. Other economists would be worried that it was a source of instability because those said funds can flow away. Was there concern that the way the euro was designed could bring down banks in small countries with those massive flows in and out?

Mr. Brian Goggin: No, I don't think the thinking ever advanced to that level to be quite honest.

Senator Sean D. Barrett: You mentioned to Deputy McGrath that the loan-to-deposits peaked at 176% in 2008 and it's 120% or so currently. Is that broadly -----

Mr. Brian Goggin: I'm not quite sure what it is currently. In fact it might even have been less than that. The bank would have reported its results to the end of 2014 just recently.

Senator Sean D. Barrett: And the other index of that kind that's presented to the committee is concentration on two sectors. Now it seems from what you've been saying that you decided to concentrate on construction and they recommend 250%, isn't that right, for the concentration of the two sectors? What was the highest figure that Bank of Ireland went to, can you recall?

Mr. Brian Goggin: I wasn't familiar with the risk concentration framework that you've just described until I'd read it in the core documents and I might refer to the documents in a moment if I can remember where they are. But when I investigated the issue in preparing for today, I saw very clearly that there was a difference of interpretation in terms of how one would describe an economic activity or activities and which ones had a correlation to a predominant risk factor. In the case of Bank of Ireland, our submissions disaggregated three of the factors and broke them into two different buckets - two in one and one in the other. The two carry the 250% limit and the one carried a 200% limit. I looked at a letter written from the bank's regulatory unit back to the Central Bank in 2006 and, from memory, the bank was well within those limits at that time as described by Bank of Ireland.

Senator Sean D. Barrett: As the bank since 1783 you were describing was going towards having to be rescued, did your accountants, PwC have any observations in 2007 and 2008 that there was trouble imminent?

Mr. Brian Goggin: Certainly not in 2007. In 2008 we would have, you know, ourselves begun to realise that the economy was beginning to slow down quite significantly and unemployment was beginning to pick up, that property prices were beginning to slow. I mean the period up until September '08 I think the property prices, residential property prices should I add, had only declined by 8%. But no, PwC wouldn't have from my recollection expressed a particular concern other than the one we ourselves would have been dealing with as a management and as a board.

Senator Sean D. Barrett: And there was a 43% discount on your properties transferred to NAMA. Do you know now did you fund any ghost estates?

Mr. Brian Goggin: The short answer to that question is "I don't know". Indeed, the whole transfer of assets to NAMA occurred in 2010. I retired in February 2009. But if I was to offer a view I'm sure there were some to be quite honest. But I don't know for a fact.

Senator Sean D. Barrett: Were there contrarians at all in Bank of Ireland when people like Morgan Kelly began to write about this and when *The Economist* house price index showed that Ireland was way out of line in house price inflation, you know, all through the period leading up to the rescue and the bailout?

Chairman: There's a question I need to get in now as a result. So if you could just maybe very prompt at this-----

Senator Sean D. Barrett: I will indeed. Thank you, Chairman.

Chairman: I need to allow time in the questioning for it to happen.

Senator Sean D. Barrett: Did anybody table that *The Economist* house price index because it would have warned people that Ireland was way out of line in house price inflation?

Mr. Brian Goggin: The short answer is "No". Morgan Kelly's view looking back with the benefit of hindsight, you know, should have been taken more seriously and it wasn't. I myself, you know, in my meetings with Peter Nyberg for the Nyberg commission said to him, you know, that I was disappointed myself that I didn't take myself a more contrarian view or that I didn't inject into the strategic policy making process a more contrarian view.

Senator Sean D. Barrett: Thank you very much, Chairman.

Chairman: Thank you very much, Senator. I would just wish to come back to something there. It's to do with the wholesale funding. Mr. Goggin. There are two reports on it. They both relate to core documents Bank of Ireland B3 and they spread over pages 15 to 21.

Mr. Brian Goggin: Hold on one tick now, B3.

Chairman: B3.

Mr. Brian Goggin: I had all these in order starting out but they've got shuffled now.

Chairman: That's fine. I've shuffled them up meself as well. Pages 15 to 21.

Mr. Brian Goggin: Okay, I got you.

Chairman: In summary over those pages, in 2001 wholesale borrowings in Bank of Ireland were €16.7 billion and accounted for 22.6% of the funding and, by March 2007, these figures were €79.9 billion and 45%, respectively. Now that's a very, very measurable and significant increase in figures if you forget about the percentages when you just look at the sum to which the percentages are being drawn from. So in this regard, this may indicate that your institution showed an increased reliance on wholesale funding from 2005 to finance growth in your own portfolio. Were you aware at any time that this might be an issue and did you regard this as presenting a fundamental risk?

Mr. Brian Goggin: No, I was wide awake and alert to this development. It was a fundamental decision in the detailed strategic process that we undertook in 2005 and 2006. It was an informed and fundamental decision underpinning that strategy that we could grow wholesale funding in the manner that we did. And that was a mistake.

Chairman: Okay, so this comes back to our earlier conversation of this morning where there are concerns with borrowing short and lending long with that money. We see an acceleration of that model moving from €16.7 billion up to €79.9 billion.

Mr. Brian Goggin: No, there wasn't, Chairman, and a reason for that is that 44% of the €144 billion of lending was to residential mortgages with contractual terms going out to 35 years and there was no way you could match fund a book like that. So the fundamental banking model throughout the majority of my working life was to borrow short and lend long - it was a fundamental feature -----

Chairman: But earlier this morning we discussed the risk factors that were arising because of loan-deposit ratios, so this has to be looked at in that context as well.

Mr. Brian Goggin: Sure.

Chairman: And that wasn't a cause of concern or risk to the -----

Mr. Brian Goggin: No, because again we looked at access to ... we examined the wholesale markets ... you can see from these papers the array of facilities and arrangements that we had put in place ... but look ...at the end of the day, if a bank displays evidence of difficulty, the ordinary depositors would be gone as fast as the wholesale depositors.

Chairman: And does that not create its own dynamic in terms of comments like "don't scare the horses", and that creates a behaviour in its own regard by an institution?

Mr. Brian Goggin: No, I mean ... I think, I think at the end of the day -----

Chairman: If they are not to frighten depositors?

Mr. Brian Goggin: No, I think ... No, at the end of the day, you know, in structuring a very complex business which is what Bank of Ireland was and is, you look at how you can fund it, where you can get your capital, how you underwrite your risk, how you calibrate the risk, and you make a series of decisions, ultimately, in an integrated format and you consider all aspects of that strategy in terms of the risks applying to it. We made a decision, we made a very deliberate decision, to increase our wholesale funding to grow our business.

Chairman: Thank you, Mr. Goggin. Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Goggin. If I could bring your attention to BOI - B2, Vol. 1, page 23.

Mr. Brian Goggin: Yes.

Deputy Eoghan Murphy: It's about the establishment of a dedicated property unit.

Mr. Brian Goggin: I referenced this earlier on, yes.

Deputy Eoghan Murphy: This document is from 9 November 2004. So I just want to read out a couple of bits from it:

> The Property Market in the Republic is shaped and controlled by less than 100 key players. In the past 5 years we have under performed in this top end market, which has been dominated by Banks with specialist property units, most notably Anglo Irish Bank. [...] A dedicated property unit is being established in Corporate that will be responsible for managing relationships with total group exposure in excess of €30m.

Whose initiative was that new unit?

Mr. Brian Goggin: It was ... what's the date of this again?

Deputy Eoghan Murphy: It's not dated on the document itself but it's from November 2004.

Mr. Brian Goggin: That would have flowed out of whatever the strategy we had at the time into our annual operating plan and it would have been a decision of management in terms of executing that strategy to do this.

Deputy Eoghan Murphy: Were you CEO at the time?

Mr. Brian Goggin: When did you say it was?

Deputy Eoghan Murphy: November 2004.

Mr. Brian Goggin: I was.

Deputy Eoghan Murphy: You were. Okay. So this would have been a decision taken by you as CEO, with the approval of the board or how would that work?

Mr. Brian Goggin: Yes, well ... the strategy would have been approved by the board. I had authority, once approved, to implement that strategy.

Deputy Eoghan Murphy: Okay, so can you remember who looked at Anglo Irish Bank and said, "They have a specialist property unit, we should have one too"?

Mr. Brian Goggin: You know, I'm not quite sure it was quite as blunt as that. We looked at the entirety of the market. The bank had been involved, and was involved in property over a period of years but this was clearly a market segment that our conservatism had excluded us from to a significant degree and, on examining it, we saw opportunities in it. I think the manner in which we kind of pursued those opportunities were consistent with the economic expansion in Ireland, the building of shopping centres, the building of roads, the building of bridges. This unit was also focused very much on the UK market.

Deputy Eoghan Murphy: Am I right in understanding, though, that you restructured departments in the bank to establish this property unit because of what Anglo was doing?

Mr. Brian Goggin: No, not exclusively because of Anglo. It was to avail of the opportunities that were emerging in the market. Anglo happened to have a particular business model. Anglo was a monoline. Bank of Ireland was a very different bank. The Chairman referenced earlier on that 22% or 24% of GDP was coming from construction-related activity so this was a huge piece of the economic engine in Ireland at the time so I was responding to that, not responding to Anglo Irish Bank.

Deputy Eoghan Murphy: But you specifically mentioned Anglo Irish Bank in the note here, and them having a specialist property unit. And you're setting up a dedicated property unit, so are you imitating Anglo Irish Bank?

Mr. Brian Goggin: No. Bank of Ireland never imitated Anglo Irish Bank.

Deputy Eoghan Murphy: So why are they referenced here in the establishment of this property unit, which was a restructuring in the bank?

Mr. Brian Goggin: Yes, Anglo Irish Bank, you know, was the player in the property market. That's all Anglo Irish did was property. They seized the opportunity, as the economy was reshaping, and I go back again to the comment about the proportion of GDP made up by construction, and Anglo was in there. They were seen by the marketplace in terms of their PE rating, they were acknowledged by analysts, they were you know, acknowledged by everybody. We did not follow them, but we had to recognise them as a bank that had clearly identified an opportunity.

Deputy Eoghan Murphy: You did not follow them but you copied them?

Mr. Brian Goggin: No, we most certainly didn't copy them either.

Deputy Eoghan Murphy: But they had a property unit, and then you had a property unit -----

Mr. Brian Goggin: Yes, but sure all banks had a property unit. Look ... there -----

Deputy Eoghan Murphy: Why did you not mention the other banks then?

Mr. Brian Goggin: Maybe we should have, I mean ... you know, the property unit here was set up in the area of the bank that had the highest order of sophisticated skills for dealing with complex credits, so in setting it up we positioned it in the part of the bank that was best equipped from a skills and experience perspective to consider that market opportunity and to underwrite risk in that market opportunity.

Deputy Eoghan Murphy: The market opportunity that Anglo was taking advantage of.

Mr. Brian Goggin: No, the market opportunity that was a function of the economic expansion at the time. Anglo was a significant participant in it.

Deputy Eoghan Murphy: Okay. What does managing relationships mean? What does it include if a dedicated property unit is being established in corporate that will be responsible for managing relationships?

Mr. Brian Goggin: Yes, the whole business model in corporate banking, and I spent many years in my earlier career working in corporate banking ... A corporate banking relationship manager was assigned a portfolio of relationships. So when I worked in corporate banking, I had 20, 25 very key banking relationships. In my case, they would have been multinational companies, they might have semi-States -----

Deputy Eoghan Murphy: How did you manage then? Through hospitality?

Mr. Brian Goggin: I managed them from the point of view of meeting their banking needs. That might relate to their operating current account, electronic banking, provision of car leasing finance for their fleets - it covered a multitude of things. That's how I was motivated and tasked with managing a relationship.

Deputy Eoghan Murphy: And did it include offering new lending on new terms in a proactive manner?

Mr. Brian Goggin: To the extent that the customer had a need. The driving force for lending demand in the kind of relationships now we are referring to ... these are very sophisticated companies, major Irish quoted companies, public companies ... They might be expanding, they might be investing in plant, they might be making an acquisition. I don't want to mention names but, you know, they're obvious, the ones I am talking about. I had responsibility in my early years for managing relationships like that, and I would meet with the finance director of those companies on a regular basis and ensure that, you know, Bank of Ireland was meeting the needs ... many of these banks ... many of these companies would have been multi-banked.

Deputy Eoghan Murphy: You were looking for new opportunities. That's why this unit was established. So, in looking for new opportunities, were you presenting new opportunities in these relationships with the key lenders ... the key players, as you refer to them?

Mr. Brian Goggin: Yes. I mean, if Bank of Ireland had a proposition that we felt might be of interest to a substantial, sophisticated, multinational connection, oh yes.

Deputy Eoghan Murphy: So you would go to someone then with a proposal for a new loan for them.

Mr. Brian Goggin: It mightn't be a loan. It could be a pension scheme. It could be anything.

Chairman: Are you coming up then to a new line of questioning?

Mr. Brian Goggin: But, yes, lending ... lending was part of the product suite. It was a significant part of the product suite. I would not go, in all probability ... I'm putting myself back in a position which I can relate to as having been a practising corporate banker, you know, company X plc, you know, they weren't going to take money from me just because I said to them, you know, "You should have money." They had to have a fundamental need. They were either expanding; they were growing; they were acquiring, or they were restructuring their banking facilities. That's what gave rise to the need and I wanted to make sure that I was in that frame when the opportunity came around.

Chairman: I'll let the Deputy back in.

Deputy Eoghan Murphy: Thank you. And, just, why was retail property team ... why were they brought into that new unit?

Mr. Brian Goggin: Because the sophistication was in that unit and we felt that from a control and risk management perspective that's where it should be.

Deputy Eoghan Murphy: Private banking had the experience in doing the property-----

Mr. Brian Goggin: Private banking was much smaller-----

Chairman: Deputy, this has been exhausted and I'd like to open up a new line of questioning, if you can, please, or else I'll go into that space.

Deputy Eoghan Murphy: No, thank you, Chairman. If I could take you then to BOI - B4, Vol. 1, Mr. Goggin?

Mr. Brian Goggin: Yes. Which page?

Deputy Eoghan Murphy: Pages 27 through 31.

Mr. Brian Goggin: Yes.

Deputy Eoghan Murphy: So this is documentation from the Financial Regulator, December 2007.

Mr. Brian Goggin: 2007, yes, okay.

Deputy Eoghan Murphy: You see the top of page 27. And it's also got a schedule from December 2007 as well, and where it points out specific findings on page 30, for your bank. "However, it appears that no comprehensive review of exposures to a group of connected borrowers is conducted on an annual basis," at point two. And if you go down then as well to M3 at the bottom of page 30, "Inspectors noted that Private Banking, which has responsibility for certain exposures within the [redacted] Group, did not review facilities provided to two of the principals for a period of over seventeen months." How did these ... how were these internal control issues allowed to arise, that the Financial Regulator had to bring them to your attention?

Mr. Brian Goggin: In any business as substantial and as large as Bank of Ireland, you know, issues will arise from time to time. The response by Bank of Ireland to those findings I have here. It didn't come in my core documents but I requested it of the bank and I can read the answer to you because it deals with these specific issues, just the Bank of Ireland specific issues. In terms of credit reviews, M1:

> Bank of Ireland corporate banking would stress that when it reviews all borrowing relationships, connected exposures are grouped and clearly highlighted in the credit papers. The BOI corporate banking credit unit and/or credit committee therefore have full visibility on the complete risk picture. There are, however, limited situations where exposures are linked by a common shareholder who, indeed, may only have a minority stake in the borrowing vehicle. Where Bank of Ireland corporate banking aggregates these lines with the other exposures for reporting purposes, there may be no financial dependence on that minority shareholder for the connected risk. For these reasons, Bank of Ireland corporate banking believe its approach in these limited situations of aggregating the exposures and reviewing the risks separately is prudent and it can assure the Financial Regulator that where a credit issue arises in a linked exposure, it is promptly reviewed and dealt with, bearing in mind the overall connected limits.

And in relation to M2, the response reads:

> Since credit committee on 30 August 2007, Bank of Ireland corporate banking has exited the [blank] and has achieved a significant reduction in exposure and the risk on the

residual facilities remains within tightly controlled parameters. The strategy remains one of prudence and risk containment to this connection.

So we substantially exited that connection. And the frequency of reviews by private banking, the Financial Regulator's recommendation is accepted and agreed. That was the formal Bank of Ireland response to those issues, Deputy.

Deputy Eoghan Murphy: NAMA faced a problem though later on to the tune of €26 million for properties and lenders where the security wasn't as secure as it should have been, and-----

Mr. Brian Goggin: In relation to Bank of Ireland?

Deputy Eoghan Murphy: Yes. I have the figure here. We paid €26 million in respect of unenforceable security on transferred loans.

Mr. Brian Goggin: I'm ... well, again, the transfers to NAMA occurred, you know, a year and a half or more after I retired, and I wasn't involved in that process.

Deputy Eoghan Murphy: Those loans would have been put in place while you were involved with the bank, as these finance reports ... Financial Regulator reports refer to.

Mr. Brian Goggin: Yes.

Deputy Eoghan Murphy: 2007, they're finding these problems.

Mr. Brian Goggin: The transfers to NAMA ... I mean, we know that Bank of Ireland's share cut was a significant 43% but significantly less than the 59% average. However, the haircut that applied to the €10 billion or so of loans transferred by Bank of Ireland to NAMA, as I understand it ... the haircut applying to imperfections in documentation and security amounted, on a substantial transfer of €10 billion, to 0.10%. So the evidence here points very much to a bank that had its documentation and security in pretty good shape.

Deputy Eoghan Murphy: This €26 million was subsequent to the transfer.

Mr. Brian Goggin: Well, I can't comment on a particular transaction that I'm not familiar with. There ... obviously there was some issue with it in all probability, as you pointed out.

Chairman: Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chair. Good afternoon, Mr. Goggin. Time is limited so-----

Mr. Brian Goggin: Thank you, Deputy.

Deputy John Paul Phelan: -----I'll be as brief as I can in the questioning and I'd ask you to be as brief as you can while answering. I want to turn you to document Vol. 1, C3b, page 3.

Mr. Brian Goggin: C3b, page 3.

Deputy John Paul Phelan: Page 3. It's the first kind of page of information. It's a court minute extract, 3 October 2008.

Mr. Brian Goggin: Right.

Deputy John Paul Phelan: You're referenced at the top of the second paragraph yourself. And in it, at the bottom of that paragraph, there's a quote attributed, I assume, to you, which says that, "$20bn of Group borrowings [...] was due to mature over the next 60 to 90 days and was considered unlikely to roll over." This is about a week after the guarantee. I'd ask you maybe briefly to elaborate on that sum and also, in the absence of a guarantee, what options ... I presume there were options that were considered the previous week, at least, by Bank of Ireland, as to how that €20 billion would be met ... or $20 billion, would be met or not?

Mr. Brian Goggin: Yes, this was $20 billion in the dollar commercial paper outstandings. And this goes right to the heart of a number of the questions by some of your fellow committee members earlier today in relation to the fragility of wholesale markets when they fracture, and this is a very specific sighting now of that in terms of the lens we had as we looked out through the maturity profile of our maturing liabilities and something like 35% of our wholesale lending had a maturity beyond a year so we had kind of maturity buckets out over the time horizon. What gave me some comfort in dealing with the liquidity issues that were emerging, and this point in particular, was that Bank of Ireland had a substantial source of collateral for posting with the ECB in the event it was required. We had substantial mortgage businesses both in Ireland and the UK and we went to considerable efforts to develop pools of non-mortgage loans into securitisation-ready packages that would have enabled us to access even greater funding again. So to put the numbers in context, I think we had something in the order of €50 billion to €60 billion of unused and available collateral to post for liquidity. So that would have been my kind of ... my last port of call, my contingency in the event I couldn't replace this $20 billion.

Deputy John Paul Phelan: That's okay. Can I ask you to turn to the next page, page 4-----

Mr. Brian Goggin: Yes.

Deputy John Paul Phelan: -----where again I think it's a reference to yourself, where you say that eligible-----

Mr. Brian Goggin: Which paragraph are you on, Deputy?

Deputy John Paul Phelan: The first paragraph.

Mr. Brian Goggin: Yes.

Deputy John Paul Phelan: You explained how your own liquidity profile, which you could see, "eligible collateral exhausted in 30 days if markets remained closed." I think it's in the middle of that paragraph. And there is a further quote that I want to make at the end of that paragraph on this point the CEO, yourself, and the chief financial officer "sensed a marked reluctance on the part of the CBI [Central Bank of Ireland] to approach the ECB and also formed the impression that the CBI was less well informed on market developments and their implications for all Irish banks than would have been expected."

I want you to briefly outline why that marked reluctance was there and why do you think that the Central Bank was less well informed then it should have been?

Mr. Brian Goggin: Well, I think to the first point, I think I can point to very ... very clear evidence for that piece. You'll recall that when I was describing the events of 29 September, a few days earlier than this, the governor of the Bank of Ireland met with the Governor of the Central Bank to assist me in my unsuccessful attempts to have the ECB collateral rules expanded. The Governor of the Central Bank told the governor of the Bank of Ireland at that meeting that there was nothing further he could do. So that was certainly feeding into my view that the Central Bank of Ireland was, for whatever reason unwilling to push the issue with the ECB.

Deputy John Paul Phelan: Okay.

Mr. Brian Goggin: The ECB was the decision-making authority with regard to the collateral that it would accept.

Deputy John Paul Phelan: And the issue of whether... why they were less informed or less well informed than they should have been, can you-----

Mr. Brian Goggin: Well I-----

Deputy John Paul Phelan: What led you to believe that?

Mr. Brian Goggin: I think it was probably a general frustration, if I go back to the 29th, I was asked to acquire Irish Life & Permanent, Anglo Irish were about to default, I had a few weeks earlier suggested they should nationalise Irish Nationwide Building Society and a week later, none of that had taken effect.

Deputy John Paul Phelan: Can I ask you if you believe that a change in the ECB collateral rules or the Central Bank approaching the ECB would have led...could have led to a situation where the guarantee wasn't required?

Mr. Brian Goggin: It is an interesting question. I don't believe so, I think the collateral rules for the ECB were very much of a contingency nature, one...as I said myself. I took some comfort from the volume that we had, but you couldn't run a bank indefinitely on posting collateral with a monetary authority. That would be a temporary measure, so it was very much in the contingency space.

So to answer your question Deputy, no I don't think that would have-----

Deputy John Paul Phelan: On the same page, page 4-----.

Mr. Brian Goggin: ----- done the job.

Deputy John Paul Phelan: -----I think it is paragraph six, it relates to meetings with the Financial Regulator and the Central Bank, well actually I think you did reference them earlier, obviously this is a meeting concerning the guarantee as well. You, it stated and I want to direct... directly quote it. "Regarding ECB collateral criteria, he informed the Governor that the CBI and the Financial Regulator (FR) had done all they could to achieve a change in ECB rules, but without success."

Can you elaborate about what "done all they could" meant, and do you have any more details on the extent of that and on, perhaps, the nature of your relationship at that particular time with the Financial Regulator?

Mr. Brian Goggin: I can only...I can only assume or guess that the Central Bank made overtures and they were pushed back. It's an answer really...or a question really that you will have to address to the Governor of the Central Bank or the Financial Regulator when they come before you.

Deputy John Paul Phelan: In the period of your tenure, could you briefly describe your relationship with the regulator?

Mr. Brian Goggin: My relationship with the regulator was professional, it was respectful. I always viewed the regulatory authority as the grant of the licence to Bank of Ireland and I had absolute respect for the authority that vested in the regulator, in that regard.

Deputy John Paul Phelan: Can you recall any outcomes... or the main purpose of discussions held with the Central Bank, post publication of the financial stability reports from 2004 onwards?

Mr. Brian Goggin: No, I mean I read those reports, I can't recall any specific interactions Deputy.

Deputy John Paul Phelan: Okay. I'd ask you turn to page five of the same document that we are on, C3b, Susan O'Keeffe ... Senator O'Keeffe mentioned it earlier. Quote, in the middle of page 5, "No indication of Anglo's specific needs was given except that it was due to repay €1.5bn on Tuesday to a German bank". Firstly, I'd ask you do you know what the German bank was? "And may need" and this is continuing on the quote "may need a further €4 billion later in the week."

Do you know the name...are you at liberty to say who... which German bank it-----

Mr. Brian Goggin: No.

Deputy John Paul Phelan: Do you believe in your experience of 40 years of banking, that that German bank was likely to be engaging in lobbying of its own, with the fact that €1.5 billion was going to be owing to it on the Tuesday, and might not have been... would not have been paid on the Tuesday?

Mr. Brian Goggin: Deputy.... first of all, I have no idea who the counterparty was-----

Deputy John Paul Phelan: Okay.

Mr. Brian Goggin: ----- i.e. the German ... I have no idea whatsoever.

Deputy John Paul Phelan: The meeting you had with the Anglo official didn't discuss any of that?

Mr. Brian Goggin: Not to my recollection.

Chairman: Final question.

Deputy John Paul Phelan: I want to ... you're cutting me short there Chairman-----

Chairman: We have a deadline.

Deputy John Paul Phelan: I want to refer to... again C3b, page 40. You are already exploring, it's 13 October-----

Chairman: Deputy, have you a question?

Deputy John Paul Phelan: Yes, 13 October is the minute, you were exploring capital from the Government, but did you... there is a quote in the middle of that page that you did not want to approach the Government because it was the week, I think, before the budget. And back on page 16, there is a direct quote that the Bank of Ireland was exploring a capital injection from the State at that particular juncture. This is in stark contrast to what you were stating publically in the media at the time. This is two and a half weeks after the guarantee. And you were on the record as saying that, publicly, that Bank of Ireland was not seeking, at that particular juncture, seeking any-----

Chairman: Deputy you are running out of time. If you want a response-----

Deputy John Paul Phelan: ----- capital injection. Well, I'm asking you to square that particular quote on page 16 with your public position at the time.

Chairman: Okay the question is made, Mr. Goggin, and then I am moving on.

Mr. Brian Goggin: Look, the short answer to this question is that the discussions around capital, as evidenced in these papers, had all to do with new capital rules arising out of the decision by the UK Government to increase the core tier 1 ratio of the UK banking system, up to 7.5%. That immediately put pressure back on the Irish banks. The capital discussions here have nothing whatsoever to do with solvency; it's all to do with new regulatory impositions.

Deputy John Paul Phelan: That quote and the-----

(Interruptions).

Chairman: Sorry Deputy....sorry Deputy you are out of time, we have to move on.

Deputy John Paul Phelan: ----- explore a capital injection by the State-----

Chairman: Mr. Goggin if you could come back to the Chair please, because we are out of time. And if members don't discipline their time, unfortunately it has consequential affections....effects for other questioners.

Mr. Brian Goggin: Yes Chairman.

Chairman: So I am moving back to the wind-up on this because we have to conclude fairly promptly. Deputy McGrath, you have five minutes for a final wrap-up and likewise Deputy O'Donnell, and five minutes inclusive of questions and answers.

Deputy Michael McGrath: Yes, thanks Chair. Mr. Goggin, you said earlier on in response to my question that you would prefer not to disclose your annual pension from Bank of Ireland, and can I put it to you that... you know... the Irish people would have preferred not to have had to have guaranteed Bank of Ireland, would have preferred not to have had to put in €4.7 billion into the bank and to deal with consequences that flow from that. Perhaps you might like to reflect on your response and to put it to you that it was certainly reported in the media that your annual pension from the bank on your departure was in the region of €650,000.

Mr. Brian Goggin: Deputy, I said to the late Brian Lenihan, in relation to the support for Bank of Ireland back at the time, that I viewed it as a requirement of a temporary bridging nature and that, I am on the public record in 2009 ... February 2009 in saying that the State, in my view, would be suitably and appropriately rewarded for the investment that it was required to make in Bank of Ireland. And that prediction has, most certainly, been borne out. And that is all that I wish to say on the matter.

Deputy Michael McGrath: Well, I would just put it to you Mr. Goggin, that the measure of the State rescuing Bank of Ireland is not a simple measure of money in cancelling money out. There were other consequences of the State coming to the rescue of the banking system, including Bank of Ireland, so that I think is a very narrow measure that you have put on it there. But that is a matter we will deal with the full course of our work.

What did you get wrong, in your time as group CEO?

Mr. Brian Goggin: I think the principle pieces I got wrong was in relation to an assumption, based on consensus forecasts that we were looking at a pretty sustained period of robust economic growth. I got wrong the fact that there was insufficient attention, I suppose, given to the possibility of the massive property correction and the unprecedented collapse in global financial markets. It's easy to say that actually with the benefit of hindsight. I would emphasise that the decisions I made, the recommendations I made to the board were always recommendations of ... based on informed positions, always made in good faith. And sometimes commercial decisions are good and sometimes they're wrong, and I got those ones wrong, along with lots of other people in the world. That's of little comfort.

Deputy Michael McGrath: Sure. On the question of the inclusion of dated subordinated debt in the guarantee you said that Bank of Ireland requested the inclusion of such debt. Ultimately, there was €12.2 billion of dated subordinated debt across the system included in the overall €375 billion guarantee, and of that €12.2 billion, Bank of Ireland had €5.2 billion of the dated subordinated debt which was guaranteed. So you had 43% of the dated subordinated debt or junior bondholders guaranteed, so you stood to benefit the most from their inclusion. Can you just clarify what would have been the consequences of not including dated subordinated debt in the guarantee, and are you aware of the criticisms made by Governor Honohan and others of the inclusion of such debt in the guarantee?

Mr. Brian Goggin: Yes, I can't relate, Deputy, to the figure you mentioned. I looked at the subordinated liabilities of Bank of Ireland at 31 March 2008, which would have been the information current going into the meeting on 29 September. I might add that I had absolutely no idea whatsoever what the aggregate amount or the maturity profile of the liabilities of Bank of Ireland were on that occasion. I hadn't even looked at them; they didn't register on my horizon. However -----

Deputy Michael McGrath: The figure was €5.179 billion at the end of September '08.

Mr. Brian Goggin: Yes, the figure I extracted as of 31 March was actually €3.2 billion in undated and €4.6 billion in dated but that's a matter for the record. It's just important that what you record is accurate. I'm not disputing your figure, Deputy, but I have a different figure here. Of the ... the dated was €4.6 billion, so that's close enough I suppose -----

Deputy Michael McGrath: It ended up at €5.2 billion at the end of September. That's where it was.

Mr. Brian Goggin: Of the, of the €4.6 billion - and I'm looking back now I only did this exercise the other day - €750 million of the €4.6 billion was due in 2010. The balance of the €4.6 billion, i.e. the vast majority of it, was due in a period from 2013 to 2036. So the majority of that would have fallen outside of the two year guarantee.

Chairman: Thank you. Deputy O'Donnell, five minutes tightly.

Deputy Kieran O'Donnell: Mr. Goggin, we had Mr. David Duffy, current CEO of AIB, in before us yesterday. He said that the bank had contacted former executives of the bank looking for a reduction in their pensions back in early 2014. Were you ever contacted by Bank of Ireland in a similar regard?

Mr. Brian Goggin: No.

Deputy Kieran O'Donnell: So you've taken no reduction of any form in your pension? ... I'll take that as a "Yes", as a "No" ... fine.

Mr. Brian Goggin: No.

Deputy Kieran O'Donnell: Can I ask the ... when you ... why did you retire rather than resign from Bank of Ireland?

Mr. Brian Goggin: Why did I retire rather than resign? I mean I had been chief executive for five years. There was an option in my employment contract for me to opt to retire within one year or for the board to ask me to retire within one year. By mutual agreement, we both exercised that option. That's why I retired.

Deputy Kieran O'Donnell: Were you ... As part of your contract of when you retired was there gardening leave included in terms of going to other similar type financial institutions?

Mr. Brian Goggin: I can't recall, I know what the term "gardening leave" means, but, no, I can't recall that there was a restriction as such. I was very ill after I retired so I didn't work for quite a period.

Deputy Kieran O'Donnell: But you are now working with Apollo who are a company who are investing -----

Chairman: -----terms of reference so I'm going to push the Deputy very quickly to get back on to the business.

Deputy Kieran O'Donnell: Can I just go to ... on the night of the guarantee you stated that you left, as far as you were concerned that a blanket guarantee was being put in place for the six rather than the four institutions.

Mr. Brian Goggin: Correct.

Deputy Kieran O'Donnell: Now. AIB, Mr. Sheehy told us last night his understanding was it was just the four institutions.

Mr. Brian Goggin: I heard him say that.

Deputy Kieran O'Donnell: So can you tell me the circumstances and the meeting that took place, where your understanding was, who informed you that it would be a blanket guarantee involving all six of the institutions. What time was the meeting? Who was present at the meeting? Who directly informed you?

Mr. Brian Goggin: Look ... it was the meeting chaired by the Taoiseach. The representatives in the room, you know -----

Deputy Kieran O'Donnell: Where all the banks there?

Mr. Brian Goggin: Well there was only two banks, AIB and ourselves.

Deputy Kieran O'Donnell: There were only two banks there.

Mr. Brian Goggin: My recollection of it is it occurred when we came back into the room -----

Deputy Kieran O'Donnell: What time was that roughly?

Mr. Brian Goggin: Two o'clockish a.m.

Deputy Kieran O'Donnell: Two o'clock in the morning, yes, came back into the room? Who was present in the room at that time?

Mr. Brian Goggin: All the ... the Taoiseach, the Finance Minister, the Secretary General of the Department of Finance, the deputy Secretary General, the Attorney General, the Central Bank would have been represented by John Hurley, although I know he had to go home at one stage. Tony Grimes may have stood in for him ...

Deputy Kieran O'Donnell: Who informed you? What was the circumstance ... how were you informed there would be a blanket guarantee of all six?

Mr. Brian Goggin: When we came back into the room and we indicated that we, with some considerable effort, could meet the request that was made of us to assist the Government in dealing with the liquidity issue in Anglo and we said we each could provide €5 billion - now I mentioned earlier that there was a notable change of mood in the room, there was relief ... it's two o'clock in the morning. This problem is a few hours away. Here we have the two major banks stepping up to the plate to help with a very difficult situation. It was at that juncture when we conveyed our capacity to support that ... I can't recall who actually said it and I'm not evading the question. I'm conscious I'm under oath here ... I can't recall who said it. I would imagine it was one of the senior members representing the Government, either the Taoiseach or the Minister for Finance, but I'm only guessing.

Deputy Kieran O'Donnell: And they said it was the six institutions.

Mr. Brian Goggin: That is my clear understanding.

Deputy Kieran O'Donnell: What response did the two banks give on the night?

Mr. Brian Goggin: We kind of got straight into dealing then with what needed to be done -----

Deputy Kieran O'Donnell: Did ye say ye agreed or disagreed with it?

Mr. Brian Goggin: No, I didn't. I just accepted it as a decision, Deputy.

Deputy Kieran O'Donnell: One final question, one final question. If you had it back again, taking all the factors into account ... you were a banker of 40 years experience, what would you have done differently with Bank of Ireland?

Mr. Brian Goggin: What would ... It's easy to say that now with the benefit of hindsight. I clearly would not have relied on wholesale markets to the extent we did but, look, I think that's a shallow response because I know what happened at the time I couldn't possibly have anticipated. I did my best. I always acted responsibly. I think the records and the paperwork show the level of rigour and governance around processes in Bank of Ireland. Look, I started at the very bottom of the bank. I started doing the post in Bank of Ireland. I worked my way to the top. Bank of Ireland is in my veins. I was the one, at the end of the day, that had to stand there when it all collapsed.

Chairman: Thank you very much Mr. Goggin but just one final question for you. I'm not really too interested in what the colour of the wallpaper was on the night of the guarantee or what colour the phones were or what was in the sandwiches or anything else. That's immaterial. What is however of substantial significance is the details that went into the guarantee. And I just want to get a position because Deputy McGrath pursued you on this in regard to the liabilities. You mentioned under questioning from Deputy McGrath that you did not know the debt maturities or liability profile of Bank of Ireland going into the meeting at Government Buildings. As CEO of Bank of Ireland, Mr. Goggin, how is it possible you would have not known of these figures in the circumstances? And I assume that you would have spoken to your treasury people as well that evening. I mean this was a big, big position for Bank of Ireland. Are you saying you didn't have a position or a brief or figures going into that meeting that night?

Mr. Brian Goggin: No I wouldn't have had any particular need to have the figures. I knew that the term liabilities were termed out. I didn't know going into the meeting the Government was going to provide a guarantee.

Chairman: But the Bank of Ireland liabilities went in there. I mean, you obviously would have advocated that for the Bank of Ireland liabilities to go in there ...

Mr. Brian Goggin: I did for the reasons I explained. The reason I explained was that the undated, leave them out because they are permanent capital; the dated had a significant crossover to the senior and a crossover to the sovereign, so it was from that point of view I was expressing a view that they should be included.

Chairman: But because of the significance of it, and because it went in there, are you saying to the committee this afternoon that you didn't have any documentation, you didn't have any briefing with regard to the exposure of the liabilities, there was no detailed discussion with officials, Ministers, Taoiseachs in this regard?

Mr. Brian Goggin: There was no discussion whatsoever about the quantum, the maturity or the make-up of the liabilities.

Chairman: Okay. Thank you. That is it, Mr. Goggin. That will bring us to conclude. Is there anything finally you would like to add before I close matters today with you?

Mr. Brian Goggin: No, I just say, Chairman, that I hope, you know, my evidence has been of some assistance to you. You've got very important work to do and I wish you well with the rest of your inquiry and I just thank you and your committee for the courtesy you afforded me this morning.

Chairman: Thank you, Mr. Goggin. And with that said, I would like to thank you also for your participation with the inquiry today and to now say that you're excused. I just need to go briefly into a private meeting just for one-----

The joint committee went into private session at 12.51 p.m. and adjourned at 12.53 p.m. until 9.30 a.m. on Wednesday, 6 May 2015.

Institute of International and European Affairs

Governance of the ECB: Past, Present and Future

Mr. Brendan Halligan: I welcome everybody here today. Could I ask everybody to take their seats as we are about to commence? Thank you very much. Good afternoon and you are all very welcome, but before we formally commence the proceedings, a little bit of housekeeping. Perhaps, as a sign of the era in which we live, you might all wish to check your mobile phone to ensure that it is either switched off or is on silent. Secondly, you will observe the exits, behind you in here and one here, should it be necessary for us to vacate the hall unexpectedly. Okay?

My name is Brendan Halligan. I am the chairman of the Institute of International and European Affairs, which is hosting this event here today. And the institute is delighted to welcome Mr. Jean-Claude Trichet, former President of the ECB, to deliver a lecture, to which there will be two respondents. The institute, for its part, is very proud of the key role it plays in informing decisions about Ireland's strategic decisions, direction, its policies and its investments. Our distinguished visiting speakers provide a vital complement to our own research programmes, and this year, for example, we have provided in-depth analysis from an Irish perspective on Britain and Europe, the dangers inherent in the potential British withdrawal. Equally, our work on banking union has brought compliments from across the European financial services industry and our work on climate change is, of course, renowned. We ... all of us live in political and economic times of great complexity and, indeed, uncertainty. The institute understands this context and its implications. Hopefully, we are acknowledged and appreciated because we narrow the assumptions which underpin the most effective strategic planning.

Today, as I said, our guest is Mr. Jean-Claude Trichet, former President of the European Central Bank and an honorary governor of the Banque de France. He is presently chairman of the Group of Thirty, based in Washington, which aims to deepen understanding of international economic and financial issues, to explore the international repercussions of decisions taken in the public and private sectors, and to examine the choices available to market practitioners and policymakers. He is also chairman of the Bruegel Institute, the leading economic think-tank in Brussels with whom we have a collaborative relationship, and he is chairman of the Trilateral Commission for Europe. He is also a member of the Institut de France. He was born in Lyon. He is an honorary inspecteur générale des finances, an ingénieur civil des mines. He is a graduate of the École Nationale Supérieure des Mines de Nancy and of the Institut d'Études Politiques de Paris in economics, and of the École Nationale d'Administration, the famous ENA, which some say governs France. In 1978 he was made an adviser to the Minister for economic affairs and was appointed adviser to the President of the republic. In '87, he became director of the treasury and an alternative governor of the International Monetary Fund and of the World Bank. He was appointed governor of the Banque de France in 1993 and became a member of the council of the European Monetary Institute, the precursor of the ECB, from 1994 to 1998, and thereafter a member of the governing council of the ECB. He was reappointed for a second term as governor of the Banque de France. In October 2003, he was appointed President of the European Central Bank for a term of eight years, ending on 31 October 2011. In late 2010 until the end of October, he was also chairman of the European Systemic Risk Board, the ESRB. He is a commandeur de la Légion d'honneur and has been honoured by governments of Austria, Belgium, Germany, the Netherlands, Poland and Portugal in Europe and many others besides, and, of course, by universities, research institutes and business organisations worldwide.

Our institute had the honour of first receiving him in November 1997 in his capacity as governor of the Banque de France when he spoke on EMU, the final preparations. We received him for the second time in February 2009, this time in his capacity as President of the ECB, when he spoke on the external and internal dimensions of Europe's competitiveness and during the visit, he engaged in widespread discussions with the Irish policy community and Irish policy leaders.

So today we are privileged to welcome you back for the third time, on this occasion in a personal capacity to speak on the governance of the eurozone, past, present and future, this lecture being part of a series we have already initiated on international economics and finance, the first speaker of which was only as late as last Tuesday, the governor of the Central Bank of Iceland. So it gives me great pleasure now to call upon Mr. Jean-Claude Trichet to address us on the topic of the Governance of the Eurozone: Past, Present and Future.

Mr. Jean-Claude Trichet: Dear chairman, dear members of the Institute of International and European Affairs, dear panellists, dear Members of the Irish Parliament, ladies and gentlemen, it is for me an immense pleasure and a great honour to be here today for the third time, first and foremost, to acknowledge the major achievements made in just four and a half years by your country. Ireland returned to market financing well before the end of the programme in end-2013. The stability of the banking system has been largely restored and, most importantly, since 2014 the economy has been recovering at an impressive pace, to the benefit of the Irish people. I'm also here because the crisis Ireland has been through has caused considerable hardship and much about the causes of that crisis still needs to be fully understood and explained. This is very important, not least as we all want to ensure that our economies become less vulnerable and better prepared to weather future adverse shocks. I hope that by offering my thoughts today, listening to your concerns and answering questions, I can play a part in that process. You will be familiar - but we are very familiar I have to say in the rest of Europe - with the story of the tourist in a remote area in Ireland who asks a local for directions to Dublin and the Irishman says, "Well, if I were you, I would not start from here." When the crisis started in mid-2007 and then exploded with the Lehman failure in 2008, many policy makers had the very same feeling: starting from here it's terribly difficult.

From my perspective as President of the ECB, I remember clearly the huge uncertainty about where we were and which direction we should head in. I remain convinced that had central banks across the globe in the advanced economies not come together to chart a course out of the crisis, the outcome could have been a repeat, if not worse, of the '30s. To sum up, we had experienced the worst crisis since World War II, could have been the worst crisis since World War I, with a great global depression and not only a global recession.

For policy makers in Ireland, I am sure there was similar uncertainty as the consequences of the burst of the property bubble flared up around them. The banking system was severely affected and real GDP contracted by 9% between 2008 and 2010, led by a 41% collapse in investment. As a result, the public debt level exploded from around 25% before the crisis to a level of almost 90% of the GDP by 2010. On the other hand, contrary to most other stressed European economies, the price competitiveness of the Irish economy, which had strongly deteriorated in the pre-crisis years, had by 2010 already significantly improved. It is important to remember that this painful adjustment had, to a remarkable extent, happened already before the financial assistance programme that started at the end of 2010 when both fiscal sustainability and the viability of the banking system came simultaneously under question.

At the same time, in the euro area, the crisis revealed major deficiencies in its governance, ranging from the refusal by some member states to comply with the fiscal rules of the Stability and Growth Pact to a benign neglect of the major divergences in price and cost competitiveness, from the absence of a crisis management and resolution framework, and, finally, to the lack of a banking union. A lot of progress has been made since then in Ireland, in Europe and at the global level. Against this backdrop, my thoughts today will focus on Ireland and the euro area, with main focus on the past, present and future of their governance.

And if you wish, I will commence by the past: governance failures at the heart of the crisis. Looking back to the years preceding the crisis, the Irish economy experienced the build-up of large imbalances that eventually inflicted serious damage on the economy. This was partly driven by the decade long upswing in the financial cycle, which was, of course, a global phenomenon, but the fact that this cycle was so pronounced in Ireland compared with many other countries suggests that this is not in itself a sufficient explanation. As I will argue, specific failures in domestic macroeconomic and financial governance played also a very important role. Before elaborating on this point, I should stress upfront that weaknesses in European governance and its implementation also contributed to the crisis, though the main reason for the associated high costs lies in my view with national governments and, of course, not only Ireland, many national governments.

On the European governance and national responsibilities, I would say that the institutional architecture of the euro area, when it was launched in '99, was incomplete, mainly as it did not foresee that national policies could have led unsustainable imbalances to build up. It has been observed that this was also the result of the fact that several recommendations to strengthen economic governance beyond the fiscal framework by developing the EMU, economic and monetary union which ... this call was made in the Delors report but they were not incorporated in the treaty signed in Maastricht in 1992 because this treaty concentrated on the fiscal governance and not in the economic governance at large.

Policy makers made one mistake in the period of benign neglect that preceded the crisis: They were wrongly convinced that the normal functioning of the economies in a single currency area would always provide for the "competition channel" to foster appropriate and timely corrections in the national real economy in case relative cost and price competitiveness would deviate from the average. This assumption proved right in a number of cases in Europe, but certainly not for all euro area countries. And if I sum up the weaknesses that I see in the governance framework, I would say that there are three broad areas which are affecting themselves the Irish situation in their own way, even if they were affecting, of course, the euro area as a whole.

First, the Stability and Growth Pact, SGP, was not properly implemented. The "spirit" of the pact was severely undermined when the large countries, namely, France and Germany, under the Presidency of Italy opposed the full implementation of the SGP in 2003 and 2004. If the SGP had worked as anticipated and debt levels had been lower, the consequences of the financial and sovereign debt crisis would have been less severe. So, I know the point. It is extremely important. In my first speech in front of the European Parliament at the end of 2003 was to defend the Stability and Growth Pact at the time. I would say that if all euro area countries would have lived up to their promises, the crisis would not have begun with such a grave situation in Greece nor spread so dramatically across countries, including, even if it was not the case of Ireland because, as I already said, Ireland started the crisis with a very low level of debt outstanding, but, of course, the level of the crisis and the spreading of the crisis as a whole, it played an important role.

Second, there was no macroeconomic surveillance mechanism to prevent divergence in competitiveness levels and the build-up of imbalances, particularly external imbalances, as well as domestic imbalances. Such a framework, if effective, could have drawn attention to the excessive wage and unit labour cost developments in several countries, including in Ireland, at a much earlier stage. Already in ‘05, long before the crisis, the ECB considered that on top of the loose implementation of the SGP, the main economic challenge in the euro area was the significant loss of relative competitiveness of a number of euro area countries and the ensuing constantly growing domestic and external imbalances. As there was no established, according to the secondary legislation of the euro area, surveillance of these divergences, I decided to draw the attention of the Ministers of Finance every month, systematically, since 2005 - so a long time before the crisis – by circulating the national evolutions of unit labour costs, the nominal evolution of costs in the private and in the public sectors, and the positions of the various national current accounts. I have to say that these systematic warnings, which were repeated every month, were ignored as long as there was no financial crisis.

Third, and it is also important, there was no European framework to monitor and correct financial imbalances, nor appropriate crisis management and resolution tools to deal with the bank-sovereign nexus. As a result, capital flowed too easily into countries like Ireland in the upswing, and then, in the downswing, the increasing correlation between the creditworthiness of the banks and the creditworthiness of the sovereign caused capital to flow out extremely quickly, fragmenting the European financial market. This also, seen from the standpoint of the ECB, disrupted the transmission of monetary policy.

Now let me turn on the role of policies in the case of the Irish crisis. Again, Ireland was not alone, of course, in this dramatic crisis.

First of all, it should be acknowledged that during the pre-crisis years, fiscal and macro-prudential policies in this country were not up to the standard of a country exposed to financial liberalisation in the environment of monetary union. A consequence of monetary union is that interest rates converge and prevailing rates for the euro area must be attuned to the cycle and the challenges of the area as a whole. Seen from the monetary policy standpoint, namely, seen from the Governing Council of the ECB, what counts is the entire set of countries, the 330 million people around, that had a stake in the area and not this country or that country. It goes without saying, we have a single monetary policy. It is necessarily the same for all and it is designed to deliver price stability, without deflation and without inflation, to the entire euro area. If it was designed for country A or country B, then all the other countries - we were 15 at the moment of the collapse of Lehman Brothers - all the other countries would protest in saying that the area as a whole must be taken into consideration. That was very well known and that was really well understood before the euro was introduced but of course, the responsibility of the national policies is of course very important in such an environment.

At the moment of the crisis we had a toxic dynamic which was aggravated by a feedback loop, whereby the combination of a rapid increase of unit labour costs and the credit boom contributed to higher inflation in Ireland than in the euro area average before the crisis. This in turn led real interest rates to fall significantly below the euro area average. Of course it was fuelling the incentives to borrow, so credit to the private sector increased by 20% per year between 2002 and 2007, creating major vulnerabilities in the financial sector. Needless to say, the credit boom contributed to wider vulnerabilities. Above all, the economy, but you know that very well of course, became overly reliant on the construction sector as a driver of growth and employment and as a source of Government revenue.

By 2006 roughly half of fiscal revenues were from capital taxes largely linked to the construction sector, and the expenditure side of the budget was based on the assumption that those revenues would continue to flow forever. A prudent fiscal policy would have realised that the underlying fiscal deficits were much higher than those reported in real time. However, the total expenditure on compensation of employees in the public sector grew by close to 200% between 1998 and 2008, compared to the euro area figure average of around 45%. And we are speaking of the same currency, the euro, with the same international purchasing power but also the same international cost.

Turning to micro-prudential policies, that is financial supervision, similar failings materialised before the crisis. There are two very important reports analysing the origins of the Irish crisis: the so-called Nyberg report and the Honohan report. These reports document well the deficiencies in national banking regulation and supervision during the boom years, where financial stability risks were underestimated. I have to make a point also there - at the time, as you well know, the European Central Bank had no responsibility at all for banking supervision or for macro-prudential policies in member states. This changed after the crisis as a lesson learned from the crisis. But I would say that the principle-based approach to supervision, which was dominating at the time, assumed implicitly that banks would control their risk-taking as long as they are properly governed. It resulted in a much stronger focus on processes than on real outcomes, and what I would call an inadequate treatment and assessment of the risks taken by financial institutions.

Burgeoning credit growth and the consequent expansion of banks' balance sheets should have been causes for concern in themselves, but that this expansion gave rise to highly concentrated exposures to the construction sector and the property sector should have sounded the alarm. We have to recognise - but it's easy to do that now, it was more difficult to do that in real time - and this is good for Ireland, as well as for the entire financial sector in the advanced economy, we had unsustainable bank funding models.

Let me go now to a very, very important issue that has been discussed of course, thoroughly, which is the guarantee. It was also because of these unsustainable funding models that when the Lehman shock hit, a further prudential decision was taken. This decision, which would have very momentous consequences, was the introduction in 2008 of the Credit Institutions Financial Support, CIFS, scheme, better known as "the guarantee". As I said, this was to a significant extent a response to mounting, dramatic funding pressures on the Irish banking sector. And I must admit that, given the very difficult situation at that time, one could understand why such a decision was taken - also taking into account that all the big countries, after the sub-prime crisis and bankruptcy of Lehman Brothers, were about to give at that time some kind of blanket political guarantee to their own systemic banks, to make the private sector aware of the fact that they were behind their systemic financial institutions. But it is also important that the guarantee was introduced by the Irish Government without any co-ordination with the ECB or with any other European partners, and I was the witness of that, or any other international partner. The ECB, shortly after the fact, was critical of some aspects of the guarantee, as can be inferred by reading our legal opinions at the time. As we know, the guarantee triggered later an intense negative spiral between the banking sector on the one hand and the sovereign creditworthiness.

By late 2010, the imminent expiry of the original two-year guarantee - which in the meantime had been partially superseded by the so-called eligible liabilities guarantee, ELG, had left the Irish authorities in an extremely difficult situation. The so-called CIFS cliff, the wave of debt maturing in September 2010 issued under the guarantee, confirmed Ireland's loss of access to sovereign markets. Combined with other factors, such as the ever-worsening fiscal situation, the Irish Government was confronted with no alternative but to ask for official support. At the same time, it should not be overlooked that over the period 2009 to 2011 the holders of subordinated debt issued by Irish banks incurred substantial losses, what we now call burden-sharing, in the order of €14 billion. In the same vein, shareholders' write-downs exceeded €29 billion. As such, the private investors in the Irish banking system endured, of course, considerable losses, as is normal.

In this context the issue arose, which is being discussed in Ireland as regards the legacy of the crisis, on how to treat the senior bondholders of the banks that were receiving public support. The ECB's view was at the time, and still is, that a number of factors made this option extremely risky for Ireland. Before recalling the ECB view however, let me stress that the ECB simply gave advice on this issue. The ECB indeed doesn't have any authority to issue instructions to euro area governments or to ministers. Accordingly, the decisions on the modalities for the resolution of Irish banks were taken, and that goes without saying, by the Irish authorities.

Now, nevertheless, I would like to expose to you the main arguments that we see in the ECB for your consideration, the main argument that explains the decision of the Government of Ireland at the time. First, it is very simple to read what happened with today's glasses. One has to remember the situation at the time. There were neither clear rules back then nor precedent in mature economies for how burden-sharing with senior private creditors should take place. The bank recovery and resolution directive, BRRD, was only adopted in April 2014. And this lack of rules on how to deal with heavily distressed financial institutions, coupled with the very high uncertainty at the time, meant that the situation in financial markets was extremely volatile and that is why all the leaders of the major advanced economies had given the blanket political guarantee that I was mentioning. This ... especially after the so-called "Deauville declaration" in October 2010, market concerns that possible future bailouts may involve burden-sharing even with senior private investors, caused a dramatic surge in yields in stressed euro area countries, first and foremost in Ireland. I remember well the concerns expressed in those very difficult days by Minister Brian Lenihan, to whom I would like to pay tribute today and with whom I had constantly, in those dramatic circumstances, a very close and confident co-operation. As you know, Brian passed over and he was attacked by a terrible disease precisely in this traumatic period. These concerns were formulated in a letter Brian wrote to me on 4 November 2010. That letter was made public, and I could quote a passage from the letter. And it is Brian Lenihan, the Minister for Finance of Ireland writing:

> ...it is very noticeable that over recent days the widening in spreads has accelerated on the basis of speculation on the conditions that may be necessary to apply to the debt of countries accessing the European Financial Stability Facility and reported policy comments of senior political figures. It is the case that many market commentators attribute these comments as being the primary driver of the increased spreads of peripheral countries, including Ireland, in recent days.

Let me also stress that Ireland, in particular, was very vulnerable to an escalation of market tensions and financial instability at that very juncture. It is no exaggeration to say that the nature of the crisis facing Ireland, and, in particular, its banks in late '10 was more acute than in any other country.

Second, it should not be overlooked that the introduction of the CIFS guarantee scheme had, effectively, limited the potential for any burden-sharing for the two-year period of its validity. This means that, apart from any other consideration, the guarantee had prevented the Irish Government from fully bailing in its senior bondholders in the Anglo Irish Bank well before the start of the programme. And when, by late '10, the CIFS was succeeded by the ELG scheme, which relaxed this limitation, the potential scope for burden-sharing had been reduced considerably because the stock of outstanding debt had fallen.

Third ... and I think I have also to mention that by late '10, Ireland was facing a trade-off between large financial stability risks whose materialisation could have in the end impacted more dramatically the real economy and the citizens of Ireland even more profoundly than what had been experienced, and the trade-off would be with the potential gains from burning the senior bondholders. The consensus view - and I reiterate it was still a consensus in late '10 - was that burden-sharing with senior bank holders at such a critical juncture was too risky to countenance. It was a consensus view, in my own observation, in Europe, it was a consensus view at the global level so it was not the Europeans which were at stake.

When burden-sharing was discussed later ... and I was speaking of '10, now I go to spring '11, with the new Government, it was made clear by the Irish authorities that they didn't wish to pursue the issue of burden-sharing with the so-called pillar banks, Allied Irish Bank and Bank of Ireland. These banks had a retail deposit base that had remained relatively stable during the years of turbulence and acted as a stabilising force. And that is important to note, that during this dramatic period, the creditworthiness of these institutions, so-called pillar banks, had been maintaining order. And, of course, it was because appropriate decisions were taken by the successive Governments. These banks ... anything that could have undermined confidence or called into question the safety of those deposits and led to outflows would have been, you know, placing additional funding and would have created deleveraging pressure on the system, which was already under significant pressure. And if that had happened, reliance of Central Bank funding would likely have increased further. This would have resulted in greater recourse to emergency liquidity assistance, ELA, which, from an economic perspective, implies a higher level of contingent debt on the sovereign. Above some threshold, this could have further affected confidence in sovereign debt sustainability and, hence, confidence in the deposit guarantee.

All in all - and I have referred to the consensus in Europe, the consensus in the world - the ECB assessment at the time was, and with the benefit of hindsight still is - that the repercussions from bailing in senior bondholders may have far outweighted the gains, or the potential gains. This is the reason why I think that the Government of Ireland was right to take this difficult decision. More generally, the actions taken by the Irish authorities during the programme laid the foundations for the significant and rapid rebound in confidence in the Irish banking system, in the Irish sovereign and in the Irish economy. And this confidence is a whole ... confidence was shared by the three, I would say, constituencies I have just mentioned. And it is that confidence which makes, clearly, Ireland the major success of the very dramatic adjustment through which a number of countries had to go through in the crisis. And, again, in the crisis that did not start here but came here dramatically.

Now, let me turn to the present: reforms and recovery. Fortunately, much has happened in the euro area, especially in Ireland, since those difficult days in '10 and '11. At the European level also, considerable work has gone into addressing the governance weaknesses, and some major steps forward have been taken in terms of European integration. Jean Monnet's observation that "Europe will be forged in crises" has proved true again, which doesn't mean that we should be happy with the crisis, but it's clear that a number of decisions were taken in the crisis. In Ireland, the "r" of reforms has been noticeably coupled with the "r" of recovery, with remarkable outcomes and very important lessons for other European countries. And this has to be said very clearly.

Now, at the European level, we have reinforced the Stability and Growth Pact. We have now the "two-packs" and the "six-packs", which have given the Commission and the EU Council more tools to ensure sound fiscal policies. As important as the reinforcement of the SGP has been the setting up, in my own vision, for the first time, of a distinct instrument to survey competitiveness developments and macroeconomic imbalances. We call that the macroeconomic imbalances procedure, MIP. Retain this acronym. MIP is as important as SGP. It is, what lacked at the very beginning of the euro area ... the absence of surveillance of relative competitiveness. So we have that now. SGP re-enforced, MIP setting up... set up from scratch. And we have the banking union, moreover, which represents a strengthening of the financial framework, moving away from the ... what was existing before with the total segmentation between the various nations of the surveillance. The single supervisory mechanism lowers the risk of national forbearance for both micro and macro-prudential supervision. And with the single resolution mechanism, we now have a comprehensive toolkit for dealing with failing banks, including clear procedures and a clear waterfall approach to bail-in liabilities which is known ... *ex ante*. This, together with the, as I said already, SGP and MIP, should help ensure that if banks fail, they don't bring down their sovereigns with them.

Well, living through such dramatic events, one does not always appreciate their significance. And I believe that the pace and the scope of institutional reform that the euro area has seen since 2010 will, one day, be considered historical by historical standards. As noted by Herman Van Rompuy, it took only 15 years from the creation of the ... of ... after the creation of the euro area to create a single European banking supervision. In the United States of America, it took something like 150 years after the creation of the US dollar. It is not to say that we are very happy with what has happened, it is to say that undoubtedly the Europeans have been ... tried to be up to the lessons of the crisis. But, I have to say that, of course, we should not be complacence in any respect. I am well aware of the ... governance reforms are not solving all our problems. I see that the sole implementation of what has been decided is not easy, in particular, despite all the lessons of the crisis, the SGP. I see also that the MIP is not considered as it should ... as a major governance pillar for the Europeans but, again, we have to insist and stress how important it is to apply by the rule. And the rules were just re-enforced after the crisis.

Now let me concentrate a little bit on progress in Ireland and the contribution from the euro system. Progress in Ireland ... many reforms have been implemented in recent years to reverse the macroeconomic vulnerabilities that built up before the crisis - and a lot of headway has been made. These measures have been in large part driven by the Irish people themselves. I have to pay homage to the Ministers, Governor, Prime Minister who have led the country through the programme and post-programme phases until today. They had to cope with huge global, European and ... national challenges and they succeeded. A few examples. Fiscal strategy has benefitted from the plans devised by the Irish authorities prior to entering the programme. This ultimately ensured a very high degree of national ownership and underpinned the credibility of the consolidation strategy. The need for fiscal adjustment was enormous at the very beginning of the programme and we had a fiscal deficit-to-GDP ratio, excluding the cost of financial support, which was around 11% of the GDP. Everybody can see that at the end of the programme it had declined down to 5.8%. And recent forecasts point to the conclusion that in '15 it will be well below the 3% reference value. So, there you see the progress.

Structural reforms have also played a role in the turnaround in this country. Ireland already had a fairly flexible economy before the programme, with measures of business conditions consistently ranking amongst the top countries in the world. The programme concentrated mainly on tackling the massive increase in unemployment during the crisis - to around 15%. It is noteworthy that, unlike in some other stressed countries, unemployment levelled off and then began to fall already ... already in the first quarter of 2012, thanks to the flexibility of the Irish economy. To the decisions taken in ... spontaneously, if I may, in the private sector and with a full understanding by all Irish citizens that what was necessary to do precisely to get competitiveness and, through competitiveness, jobs. The financial sector measures programme had been a cornerstone of the recovery in the Irish financial sector. The liquidity and funding assessment helped produce a more appropriately sized banking sector and improved the sustainability of bank funding models. All those ... progress has been confirmed by results of the balance sheet assessment conducted at the end of the programme ... by the end of the programme in ‘13 and the ECB’s comprehensive assessment in ‘14. I would say ... and, again, we should never be complacent, but the overall restructuring of the Irish banks has resulted in a smaller, stable sector, more... much more focused than before on the domestic economy, as it should.

Last but not least, the European Central Bank has also played its role in supporting the Irish economy through this difficult period. It helped prevent the financial crisis - starting in ‘08-’09 - from turning into a dramatic great depression - like in the ‘30s. I mention this ... ECB, because we are in Europe. I should mention also the other major central banks which took extraordinarily important decisions. On many occasions after the start of the crisis, the ECB intervened to uphold the integrity of the euro area and remove fears of a break-up - an event from which all member states would have suffered ... suffered hugely. Let me here just mention, amongst several standard and non-standard measures, the full allotment, at fixed rate, under monetary policy operations, which we started 9 August 2007 - so before Lehman Brothers and at the moment of the ... I would say, start of the so called sub-prime crisis. I would mention also the securities market programme introduced in May ‘10 and through which we purchased the treasuries of three countries - including Ireland, in May ‘10 - in order to show that we are caring for ... helping to restore a better transmission of monetary policy in Ireland, which was particularly shocked by the crisis ... as two other countries. The two other countries were Greece and Portugal at the time. We renewed the SMP purchases in August ‘11, and we purchased again some Irish securities And, of course, the announcement of the outright monetary transactions in summer of 2012, which was an off-balance sheet, if I may, commitment also designed to help restore a better transmission of the monetary policy.

For Ireland in particular, the Eurosystem has provided unambiguously positive support. The level of liquidity provided by Eurosystem to the Irish economy was simply extraordinary. And I would ... only for you to have the order of magnitude in mind and, again, the paradox there exists in criticising the ECB for not having sufficiently supported Ireland. The figures are the following. At a time ... in the heat of the crisis, 25% of the total refinancing ... total support by the Eurosystem to Ireland ... 25% of the total refinancing for the euro area as a whole was for Ireland. When Ireland, of course, has a very small proportion of the GDP of the euro area and 1% of the capital of the ECB - 25%. If the United States of America, would have asked the Fed to do for the United States what we have done for Ireland, then they would ask for 100% of the GDP support. And 100% of the GDP support is not \$4 trillion, as is the case in the piling up of the QE, successive QE. It would be something like the GDP of the US, namely, something like \$13 trillion not \$4 trillion, \$13 trillion. So you see what has been done for Ireland for very good reason, I don’t regret that in any respect. We had to do that, we did that and it proved to be a full success, thanks to you. But remember that, this is very, very important to have in mind you had our full support from the ECB, not only at the level of Europe but also full support in taking some kind of global benchmark. That being said, a central bank can only lend to banks that are solvent and have good collateral. When these conditions are no longer met, we have, in the central banking, a legal duty to make that clear, which we did through my letter to Minister Lenihan on 19 November 2010. This letter has been published, the exchange of letter, the four letters, so I don't go to that, it's already public. I would only say that this situation, which was extremely grave with a problem of solvency at the level of the banks, was of course due to the underlying weaknesses of the Irish economy, of the financial sector and only, of course, a credible programme and the help of the international, European and international community, could permit Ireland to get out of this dramatic situation.

If we take stock now, we can see that this combination of measures permitted Ireland to correct its very large unsustainable domestic and external imbalances and paved the way for renewed growth and job creation as I already said. The hard work done, and we have to pay homage to all the Irish citizens that have done this hard work in the fiscal, structural, financial and monetary fields, has paid dividends for Ireland and, as I already said, the strength of Ireland's return to soundness has been impressive. The ability of the return to market credibility has been impressive with confidence being there and competitiveness has been largely restored.

Now, in many ways the experience of your country has set an example for other euro area member states. I would draw, in particular, three broad lessons from your experience for the other Europeans in the euro area. First, it has shown the advantage of a flexible economy in a monetary union. While the crisis was particularly severe here, both the real and nominal economic adjustment and the subsequent recovery have been quicker than in other, I would say clearly than in all other countries, and less flexible economies, of course, have experienced much more difficulty. Second, it has shown the advantage of undertaking necessary yet difficult reforms and fiscal adjustment at an early stage when a crisis hits. Throughout the programme, Ireland not only took complete ownership but also managed to comply fully with the memorandum of understanding and it was an impressive demonstration of determination and professionalism in the conduct by the nation of the recovery in this difficult time. I already said that, but the Irish experience has shown the decisive importance of reinforcing confidence. Confidence is an encompassing concept. Ireland gained the confidence of the Irish people in the ultimate success of the programme, the confidence of the European friends, the confidence of the international community and the trust of the external savers and investors coming back on top of that.

Now, what are the challenges for the future? I will be very rapid on that and I think the questions will be numerous in this domain. I think it is no time for complacency. We have done a lot at the level of Europe, Ireland has done a lot but it is certainly totally out of question to declare victory, time is not for complacency. In Ireland, while you know the domestic priorities much better than I, let me briefly recall, in my own understanding, what are the two main challenges. The first is working through the legacy of the crisis. Despite the progress in recent years with private sector deleveraging, the debt overhang is still very large. The level of youth unemployment also remains very high, at around 22%, perhaps, in the last quarter of 2014 according to statistics. It is below the euro area average, which is a disgrace, and much below the crisis high in Ireland, which was reached in early 2012, but it remains unacceptable. Finally, while the situation in the banking sector is improving, there is some way to go in terms of resolving the still-large stock of non-performing loans. The second challenge is making sure that the right institutions are in place to prevent bubbles from accumulating again. Despite the reforms of recent years, it would be naive to assume that the Irish growth model is no longer susceptible to boom-bust cycles. I will not insist on that, I think that giving a prominent role to the Irish

Fiscal Advisory Council is particularly important in order to prevent the return of pro-cyclical budgets. Fully implementing the macro-prudential measures recently introduced by the Central Bank of Ireland on mortgage lending is also certainly of the essence and very good and intimate and confident co-operation between the Irish staff and ECB staff within the joint supervisory teams of the single supervisory mechanism also of the essence.

If I turn now to the European governance, I have already mentioned three dimensions where we have made a lot of progress, remains to be fully implemented: the SGP, the MIP and banking union. But my intimate conviction is that in the longer term, further progress in Europe, in the euro area, have to be made. First, we could deepen the fiscal dimension of the European Union, more particularly of the euro area, so that the management of the fiscal union would rely not only upon the respect of the SGP rules but also directly on an embryo of federal budget. Several proposals have been made in this direction, including the transfer at the level of the centre of new responsibilities. The main difficulty of course relies on making sure that such transfer of national spendings to the central budget would not augment the overall public spendings across all levels of governance in the Union. Second, we could reinforce the executive branch of the euro area in setting up a minister and ministry of finance of the area. I made this proposal myself in a speech I delivered in 2011 in Aachen in the occasion of the Charlemagne prize. I don't insist on that but it is a way to reinforce the executive branch, of the equivalent of the executive branch of the euro area. Last but not least, I think that one of the major issue for the present governance of the euro area is that we have improved the governance through SGP, MIP, banking union but the democratic accountability and legitimacy of the decisions taken by the European institutions, when they design the recommendations according to those governance pillars, is not perfect. Nobody can dispute that the Council of Ministers is legitimate. They are members of legitimate governments, nobody can challenge in my opinion the legitimacy of the Commission, which now goes through a process which is also implying the European Parliament. Still, I think that it would be necessary, when we have a conflict between the centre and its recommendation, the open institution at the centre, Commission and Council and a particular country, it would be good in my opinion that the country which disagrees with the recommendation made to it could ask for arbitration, for a final say, which could be made by the European Parliament, deciding in a format composed of the Members of Parliament representing the voters of the euro area. And that final decision should be taken in close, I would say, contact with the national parliament concerned. So in such a case, we would be sure that the governance function on a way which would be effective, namely, decisions are taken which would be democratic, final say representative of the people of Europe, at least the people of the euro area. Of course, it would also respect the subsidiarity principle, because it would be activated only in exceptional cases ... absolutely exceptional cases, because it would be a case where there is an open disagreement between the Council and the Commission, on the one hand, and a particular country, on the other hand. That country asking for the final say being taken by the representative of the people. I stand ready of course to respond to questions on that particular point.

Let me only conclude what is extremely important is that ... to recognise that the hardship of the crisis ... the global financial crisis which came in Europe ... in Ireland because I ... immediately through the financial channel ... and then was aggravated by the sovereign risk crisis at the end of '09, this hardship has caused for many, many citizens real tragedy but it was not an accident. It resulted from a series of failures, both domestic and European, and I would say also global level but it is not the subject of my exposition. What is important today is to be sure that we take all the lessons for the future to fix what needs to be fixed at European-global levels and, of course, at national levels. But I have to say that when I look at what Ireland succeeded in doing over the past years, I am confident that, at the level of individual countries, a lot of very, very good ... and I know, better than anybody, very hard work can be done and be successful. I thank you very much for your attention.

Mr. Brendan Halligan: President Trichet, I wish to thank you for this very comprehensive and erudite presentation, which remained faithful to its task - that of reviewing the past, assessing the present and shaping the future. I think its many dimensions will merit great attention and study in the future. I want to thank you personally for the time and thought you have put into this presentation, particularly your proposals on the future governance of the eurozone. And I think we would all wish to thank you for delivering this speech here in Dublin, and to our institute. So thank you again.

The first respondent to the presentation ... is that from Dr. Michael Somers, who is a founding member of the institute ...formerly with the Department of Finance, he was Secretary General of the Department of Defence and, of course, is well known to us as the first CEO of the National Treasury Management Agency from 1990, which arranges Irish debt and manages the national debt. He chaired a group that established the European Bank for Reconstruction Development, has been a member of the European Union Monetary Committee, he has a Legion d'honneur from France and has many other honours in his CV, too numerous to mention on this occasion. Suffice it to say that he is somebody whose advice we have always valued and his contributions have always been particularly helpful. It gives me great pleasure then to ask Dr. Michael Somers to make the first response to President Trichet's address.

Dr. Michael Somers: Brendan, Jean-Claude, ladies and gentlemen. I am not quite sure why I am here today, whether I am the last person who did not say no or I did not say no forcibly enough or what. But when I woke up this morning I was thinking, you know, I'd love to stay in bed for another hour but I have to get up and write something to say here today. And Brendan has warned me not to go beyond ten minutes ... so at least I think many of you down here have much more interesting questions and comments to make than I will have to make.

I know Jean-Claude for very many years. I'll just make a few comments about the interaction we have had over the years. I first met him in 1987, when I was appointed as the Irish representative through the EC monetary committee and Jean-Claude was the head of the French Trésor. This was all new to me, I had not been at this particular group before. In fact, I had spent the previous few years as Secretary of the Department of Defence and when I went in ... it's always interesting to see the interaction between different people ... but Jean-Claude was the French representative and Hans Tietmeyer was the German representative. And I'm not sure whether you remember this or not Jean-Claude, but you used to come under increasing pressure from Hans Tietmeyer to devalue the French franc and you had decided you were going to adopt a strong French franc policy. And I remember Hans saying to you that you had to devalue the French franc and you absolutely refused, and he said "If you won't devalue the French franc, I will revalue the Deutsche mark". And you said to him "If you revalue the Deutsche mark, I'll revalue the French franc on the same day by exactly the same amount". This went on, you know, over several months. And anyway it was a stalemate ... nothing happened.

But we came together actually then in 1990. When the Soviet Union broke up, I got a phone call one time from our then Taoiseach, Mr. Haughey, who told me that President Mitterand had been in touch with him and felt there should be a new body set up to fund investment in eastern Europe, in the former Soviet bloc, and to go over and talk to this man Attali. I didn't know what I was supposed to be doing and I rang Jean-Claude and he kind of gave me a bit of guidance. And he met me in his ... the hotel I was staying in and the two of us drove over to

Jacques Attali's apartment. I don't know whether you remember any of this Jean-Claude. And the problem was that my French wasn't very good. They were all speaking French. Attali had two parrots, or some sort of birds anyway, who proceeded to talk as well. So in the end I said "Well, look, you'll either have to talk in English or you'll have to talk a lot more slowly because I don't know what I am supposed to be doing". Anyway, we eventually met as the 12 member states sat around the table and ... it was kind of an interesting exercise. We used to meet almost every weekend, trying to sort out a new bank. And it was actually, I think ... I chaired the EU group, then there was the OECD group, then there was the wider group, which included the Russian Federation and all these other countries. But we got the thing signed, sealed and delivered by May. The Irish had the Presidency for the first half of 1990. We started in January, we had the whole thing done by May. And the thing was set up very quickly afterwards. So it was a great success.

I had a lot of interaction with Jean-Claude then thereafter in various guises. I visited him in Bercy when he was the head of the Trésor. I visited him in the Banc de France when he was Governor of the Bank of France. I used to meet him on and off but one of the most difficult things was, when the currency crisis broke, and the NTMA was not particularly involved with the banking sector. But when NAMA was being born, the late Brian Lenihan said to me "Would you go over and meet Mr. Trichet and tell him that we need an awful lot of money?", and I said "Well would it not better if the Central Bank or the Department of Finance went over because it's really up to them?" So he said, "No no, you know him, you go over, you'll be able to persuade him." So anyway, I went in to see Jean-Claude and after the usual pleasantries and telling him where we stood, I said to him "By the way, we have a bit of an issue here. We're going to need a fair bit of money in the near future" and I said "This is going to be the end of a beautiful friendship". I said "We need about €60 billion." I thought he'd fall off his chair but he didn't. He just looked at me and we continued on. We did get an awful lot of money from the ECB, and I think Jean-Claude was always a good friend to us. Certainly he was ... personally, we have always been very close, so I was delighted to see him again here today.

As I said, Brendan has warned me not to go on. Just to say to you, I was for many years responsible for managing the national debt, both in the Department of Finance and in the NTMA. And we could never borrow enough money of course, in the State here, to fund our requirements. So we borrowed in every currency and country that you could think of and we had exposures then in a vast range of different currencies. The challenge, of course, was to try and manage these so that the cost to us wasn't enormous. Because there was always the risk ... well, first of all, that our currency would devalue, which it did fairly regularly, and secondly, that other currencies would revalue, so we'd get a double whammy. And we tried every imaginable device to try and minimise the exposure we had and the exchange rate, with very mixed results I have to say. I mean, I became convinced that you couldn't actually predict foreign exchange rates. So within the EMS then, of course, that provided a certain amount of stability for us because, in theory, the currencies only moved a little bit against each other. But, of course, you could devalue. I remember in '92-'93 ... in '92, when the British left the EMS arrangements, we came under ferocious pressure from the international markets. And I remember ... because they reckoned we were going to be next and they would force us to devalue. And, you know, when the markets take a view on you, it's very hard to resist. But anyway, the Central Bank ... there was no good economic reason, we thought, to devalue the Irish pound, and to try and protect the Central Bank by jacking up interest rates to 100% each weekend, you know, to catch the speculators. Eventually, in early 1993, the clinch point was when the banks threatened to push up mortgage rates, and we think mortgage rates are high now, they were 14% then, and the banks threatened they were going to shove them up to 18%. And I remember the late Maurice

Doyle, who was Governor of the Central Bank, saying, “Look, we fought the good fight. There is a point when, you know, courage turns into stupidity and we’d have to agree to a devaluation.” So anyway, we devalued the Irish pound by 10% and moved on.

So I was delighted, really, when the single currency came along, because it meant that we could borrow, first of all, at very low rates of interest, and secondly, without any exchange rate risk and the amounts were certainly adequate for our purposes. We didn’t have to go into all these other capital markets again in the future. So by the time I eventually left the NTMA, towards the end of 2009, our net national debt was down to about 25% of our ... of our, I can’t remember if it was GNP or GDP. But anyway, it was very low.

The real problem was, when we joined the single currency, as I’ve said many times before, you know, we joined ... we effectively joined a German team or a German, whatever you like to call grouping, but we continued to play by our own rules, and that eventually caught us out, and so we end up in the difficult situation which we found ourselves for the last few years. Much of it of our own doing, I have to say. And so be it. Okay. So, I’ve nothing in particular more to say. I thought Jean-Claude’s exposé of the whole system was extremely interesting and I’m sure that people will pore over every word he said for many years to come and it’ll probably end up in all kinds of textbooks. So thank you all indeed very much and thank you, Jean-Claude, for your very interesting speech.

Mr. Brendan Halligan: Thank you very much. The second respondent is Professor Gavin Barrett, who is a Jean Monnet professor of European and constitutional economic law, associate professor and deputy dean and head of research of the Sutherland School of Law in UCD where he teaches, among other subjects, of the law of the eurozone. A barrister, he is the author or editor of several books and studies, including *EMU, the Third Stage*, which was published by the institute, where he was one of the first team of researchers that we hired. He is an author as well of numerous books, chapters and articles and legal journals. He’s also published some legal themes in *The Irish Times*, *The Sunday Business Post* and *The Sunday Times*, and has appeared on television and radio in both Ireland and abroad. He has spoken before parliamentary committees in several countries, including Oireachtas joint committees in 12 occasions, and the House of Lords European Union affairs committee twice. His work has been cited both in the German Federal Constitutional Court’s Lisbon decision and the House of Lords reports. It gives me pleasure to invite Professor Barrett to respond.

Professor Gavin Barrett: Mr. Chairman, President Trichet and Chairman and members of the Oireachtas banking committee, and ladies and gentleman, I’m sure you will agree with me that the paper we’ve heard delivered today is a highly interesting one. It refers to two different levels, the Irish level and the European level. Part but only part of its focus has been on Ireland’s recent past, and I think that focus is entirely understandable. There has been a lot of controversy, it’s fair to say, about the ECB’s rule in relation to the bank guarantee. I think it’s fair to say that that discussion has not always been contextualised by an adequate understanding of the positive role that the European Central Bank has had. The fact that, for example, its liquidity assistance prevented the collapse of the Irish banking sector and with it, the economy. The fact that it intervened effectively to diffuse a sovereign debt crisis that could’ve destroyed the eurozone. The fact that the banking crisis and a sovereign debt crisis never developed into a currency crisis as well. Now none of that is meant to diminish the importance of the debate about the bank guarantee, but it does put it in its context and I think we do need to remember that context in discussing the role the ECB has played in recent Irish history.

President Trichet’s paper focuses just as much, however, on the past, present and future of the eurozone and that's appropriate too. As he points out, since 2010, the eurozone has seen an astonishing level of institutional development. It is rapidly becoming the focal point of European level constitutional change and indeed, not to put too fine a point on it, the eurozone is developing into the new European Union. It's vital for us in Ireland to participate fully in the debate about that eurozone, of which of course we are a founding member. Otherwise, we may miss the larger picture. Now, given that President Trichet's paper is about euro area governance past, present and future, I'd like to make a few brief observations if I may, in relation to each.

So first of all, what can we say about the past of EMU? Well firstly, the eurozone, as designed at Maastricht, was and is, like no other area of European Union integration. For one point, there is a very weak representation of the common interest. Strikingly, the traditional supranational institutions are weak. The Commission, which does enjoy an inclusive right of initiative here, is not to the same extent a policy leader. The European Parliament lacks a role as co-legislator. It's essentially a junior partner, more a spectator, really, than a player. And remarkably ... well, there's also "an executive deficit," to quote Nicolas Véron, and remarkably, the Eurogroup of finance ministers is not even an institution in its own right. Although, it's increasingly important, it's still essentially a forum for discussions.

The major institutional exception in this regard is the European Central Bank. The ECB functions, in effect, as a kind of supranational technocracy. A trustee for the public good of price stability, which Article 127 of the treaty expressly makes the primary objective of the European system of central banks. And what we got, at Maastricht in 1993, when it entered into force, was very much an ECB-centric model of EMU. It's also noticeable that representative institutions, generally, do not take centre stage in the eurozone. The ECB is independent to an unparalleled degree. The formerly dominant and famously independent Bundesbank's independence was and is protected only by ordinary German legislation. In contrast, the ECB's independence is written into the treaties. It is especially forbidden to take instructions from unions or governments by the treaty. It is made deliberately very difficult to remove executive board members from office. And of course, the central bank members on its Governing Council are all themselves representatives of independent institutions.

All that independence reflected two things: a dominant belief in the 1990s in independent central banks to ensure currency stability and also the political reality that Germany, whose participation in the eurozone was necessary in order to give the euro the great significance it has, could not give up Europe's then most stable currency, the Deutsche mark, without adequate guarantees and stability. And ECB independence gave it that guarantee. In any case, this untypical architecture of EMU was its first striking feature.

Secondly, and as President Trichet has correctly identified in his paper, that same institutional architecture of the euro area, when it was launched in 1999, was incomplete. Although, I'm not sure all of the signatories to the Treaty of Maastricht would have agreed. It was built with a unified monetary policy represented institutionally by the ECB but a far from unified and indeed, inadequate economic aspect. To borrow the words of another great Frenchman, Alexandre Lamfalussy, "the M in EMU was far better developed than the E."

Thirdly, the original model of EMU was never going to last and of course, it didn't last. As Jean Pisani-Ferry has written:

> Governance by rules and procedures [and that was the original Maastricht model] can work fine in fair weather conditions, but it cannot be relied on in stormy weather. That kind of weather requires leadership, it requires innovation, and it requires change.

And of course we got the perfect storm of the banking and sovereign debt crisis to drive real change in Europe.

President Trichet quoted in his paper, the Jean Monnet observation that Europe would be forged in crisis. Monnet also added that Europe would be the sum of the solutions to those crises. And that's how exactly how things have worked out. As President Trichet observes in his paper, the pace and scope of institutional reform that the euro area has seen since 2010 has been remarkable by diplomatic standards. Although it's fair to say, it didn't seem that way at the time judged by the demands of rapidly changing international markets. It, at times, seemed painfully slow and very last minute in nature, but it came. And that leads us on to the present of the eurozone - where are we now? And the answer is that we are in a quite different place to where we were before. I would see three huge changes. Institutionally, we've seen the creation of bailout funds undreamt of, indeed, thought by some to be illegal at the time of Maastricht. We saw, first of all, the two temporary funds, the EFSM, the EFSF and now the permanent European stability mechanism, now, of course, given the *imprimatur* of the European Court of Justice in the Pringle case. That's a half trillion euro institution ready to lend to sovereigns and, if necessary, recapitalise banks to rescue them from insolvency.

Secondly, we have seen the SGP transformed into a vastly more comprehensive, if still not proven, suite of budgetary legislation in the form of the six-pack, the two-pack and the fiscal stability treaty and that, of course, takes into the macroeconomic imbalance procedure and the European semester.

And thirdly, we have seen the creation of a European banking union, including a single supervisory mechanism and a single resolution mechanism involving the very new role of banking supervisor for the ECB.

We have also seen the ECB, however, take on an evolving and at times controversial role. It has played a key role in efforts to re-establish economic, financial and fiscal stability. I'm not sure that every signatory to the Maastricht treaty anticipated the extent to which the ECB would be so involved and, indeed, it's noticeable that despite the importance of financial stability as a classic central banking tool, the drafters of the Maastricht treaty didn't include that as an objective of the ECB, although they did give it some legitimatising mention in the treaty. Overall, however, and fortunately, they left the ECB the legal flexibility to act subject, I should say in that regard, to what the ECJ decides in the Gauweiler case in which the outright monetary transactions policy is being challenged but the advocate general has already reported in that case and expressed approval of the OMT programme.

So that's the past and the present. What can we say about the future of EMU? As Mr. Jean Pisani-Ferry, another Frenchman, has written most, perhaps not all, but most of the architects of the euro, expected monetary unification to be a stepping stone. In other words, they regarded choices made at the time of the Maastricht treaty, namely monetary union without a significant federal budget, limited co-ordination of budgetary and structural policies, no integrated financial supervision, no strong political counterpart to the central bank, as temporary. They regarded these things as temporary and that's where President Trichet's paper is particularly interesting. It contains, as we have heard, suggestions of three kinds. First of all, suggestions aimed at securing the economic viability of the eurozone as a single currency area. So, Mr. Jean-Claude Trichet makes suggestions concerning an embryonic federal budget, possibly centralising, for instance, part of unemployment insurance. And I think, surely, if one is seeking to safeguard a currency union against asymmetric shocks, the development of some kind of federal budget, at least initially embryonic, is a step we have to be thinking about, instead of the current exclusive reliance on strict budgetary discipline to provide member states with the latitude to dig themselves out of difficulty alone, albeit aided, if necessary, by eurozone level loans.

Secondly, ... yes ... one minute. That's all I need.

Secondly, we see suggestions aimed at remedying the ongoing institutional deficit at eurozone level. There is no doubt, I think, that the eurozone is inadequately institutionally served. It suffers from an executive deficit and weak representation of the general European interest. The Eurogroup of eurozone finance Ministers, for example, don't even enjoy the decision-making capacity of the ECOFIN Council at EU level, so I think the setting up of a eurozone ministry and minister for finance, perhaps modelled on the high representative for foreign affairs and security policy, seems a sensible way to unify and professionalise tasks currently scattered across the Council of the Commission, European Council of the Eurogroup, and the economic and financial committee.

Thirdly and finally, President Trichet has suggested ideas for combatting the democratic deficit - he has correctly, I think, in his paper, identified the Achilles heel of EMU in his observation that the ultimate question of democratic legitimacy in Europe is still not sufficiently addressed. His suggestion the European Parliament be used as a democratic arbiter of disputes concerning recommendations under the SGP and the imbalances procedure may or may not be the way forward. Personally, I would be nervous about squaring off national parliaments and the European Parliament, but there is no doubt that this kind of innovative thinking is exactly what we need to be doing in the eurozone, and, in particular, we need to be doing it in Ireland. The late Garrett FitzGerald pointed out that small member states like Ireland can punch well above their weight in the marketplace of ideas. It's one place we can make a difference. The IIEA has played a huge role in that regard and I hope that today's event not only looks at the controversies of the past, as important as these are, but also makes some contribution to the broader ongoing debate about which way the eurozone should develop.

Mr. Brendan Halligan: Thank you. Thank you very much indeed for that very important analysis, which we're going to study very carefully and which I will probably invite you to expand upon later as part of our research programme.

Now, at this point I want to welcome the members of the Oireachtas Committee of Inquiry into the Banking Crisis, led by their Chairman, Deputy Ciarán Lynch. I wish to welcome the committee staff and other Members of the Oireachtas who are here present.

We will now have a question-and-answer session, which will consist of four parts. First, I will read out two questions which have been composited from those submitted by members of the institute and to which President Trichet will reply. Second, there will be a serious of six questions to be put seriatim by members of the committee in the form and in the order which the committee has determined for itself and to which President Trichet will reply. Third, I will put two more questions to President Trichet, again based on a composite of those submitted by members of the institute. Finally, there will be a second set of six questions to be put seriatim by members of the committee in the form and order which the committee has determined for itself. The proceedings will be brought to a close by brief remarks, very brief remarks, by myself.

So question No. 1, which President Trichet has in front of him is a composite of those presented by Michael Tutty, who heads our economic governance group, and by C.J. Walsh, a longstanding member of the institute.

The question has three parts: 1. There have been significant developments recently in the EU on banking supervision and bank recovery and resolution, as well as on economic governance through the fiscal compact, the six-pack and the two-pack. Do you think that these moves are enough to complete EMU or what other developments do you think are needed?; 2. What would be the best institutional relationship between EU member states refusing to participate in the euro and the eurozone?; and 3. When and how will the economic governance in the EU be brought within the community method?

Mr. Jean-Claude Trichet: Thank you, thank you very much for these issues and questions. I would say I would agree, of course, that the developments have been remarkable, provided they are implemented in the fiscal compact, six-pack, two-pack, what we call the European semester, all the fiscal elements. I think we that we should not forget the MIP and the full implementation of the macroeconomic imbalance procedure, which again, as I already said, seems to me as important as the SGP because you can have a pretty good fiscal positioning and you can lose at the same time competitiveness, embark on big imbalances and then, of course, have a crisis. But all what has been decided, including, of course, the banking element and also the tools that have been set up through a treaty - the ESM has been established through a new treaty - all this is good; it is not sufficient. So I would respond yes, these moves are not sufficient and I would insist particularly on the fact that we must have, as I already said, more capacity to sustain cycles at the level of Europe through the fiscal embryo of federal budgets I have already mentioned and an element ... additional element for the executive branch, so to give more clout to the equivalent of a minister of finance of the EU area, which would have, of course, the responsibility to care for the SGP and MIP, on the one hand, and also to represent the euro area in international institutions so that we would appear as really a single entity. And again there is my call for more democratic accountability for difficult decisions in exceptional cases and we know that it might happen that there are disagreements between the European institutions and a national government. We are observing that now. We must have a way to have a final say which would be unchallengeable democratically.

As regards the relationship between the ins and outs. First of all, the working assumption of the Maastricht treaty was at the time they will all be in, right or wrong. At the present moment, out of all the members of the European Union, you have only two countries that have an opting-out clause, as you know, Denmark and the UK and the paradox is that Denmark with an opting-out clause is totally following the monetary policy of the EU area. As you know, there is a total, absolutely total imitation of what we are doing at the level of the euro area by Denmark. So ... and when we had the negotiation of the fiscal compact, again, practically all countries, but two, decided not to join in the discussion, because all the others were making the working assumption that later, or sooner, they would be a member of the euro area. So, the best would be for me to have as encompassing as possible the governance of the euro area, the SGP after all is for all, but for the euro area members it bites, not for the non-euro area members, with the recommendation ... possible sanctions. The decision-making process, I imagine, of course would go only for the members of the euro area, but the rules should be as they are, applied to all, and the same for the MIP. I would say it's very important that we continue to be as united as possible, including with the outs, in my opinion in the European Union. And after all, we have embarked on a historical process. We have to judge what we do at the level of historical endeavours. We started 65 years ago with ideas, speeches, Robert Schumann's speeches, the activity of Jean Monnet. We are 65 years later, and we have, you know, made a lot of progress. We have enlarged considerably, even in the crisis, and it is something which I found absolutely striking. We were 15 members of the euro area at the moment of the crisis when Lehman Brothers collapsed, and we had countries in great difficulty. Ireland knows that better than anybody.

The 15, at the moment I am speaking, are all there. Of course, with Ireland, which is a fantastic success, but also with Greece, at the moment I am speaking, and four of the new sovereign countries entered in the euro area, so that we are 19 not 15, 19. So, it gives an idea of what is a historical endeavour, which goes on even in a terrible, terrible period.

Last point - I would very very much call for economic governance in the EU in general and in the EA also, going through quasi-federal method, community method, and not through Government co-operation. That being said, I have to say that in the crisis, with all the major difficulties of the crisis, governments find out ways to go through it, and I think we have to accept and recognise that, all taken into account, the sense of the unity of Europe triumphed. But of course it goes without saying that in the medium and long run, we have to be much more community-oriented.

Mr. Brendan Halligan: Question No. 2 is composited from a number of members, but mainly questions submitted by Blair Horan, a trade union member of the institute. It reads:

> As part of the architecture of the single currency, the treaty provided in Article 127(6) for the Council in defined circumstances to confer specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions to the ECB. Do you consider, President Trichet, that the banking crisis in Ireland would have been avoided if the ECB had been given this responsibility when the euro was established in 1999?

Mr. Jean-Claude Trichet: It is a very, very tough question because nobody should say that we have now the ideal system. What is absolutely clear for me is that the chances for having the drama we went through, not only in Ireland but at the level of Europe as a whole, would have been much more meagre, had we had this centralised supervision at the level of Europe as a whole. So I would say, in terms of probability, to have a full-fledged crisis, it is much lower now, say, because we have as a lesson of the crisis decided to centralise at the level of the ECB. You know why it was at the level of the ECB, because the ECB proved credible in exceptional circumstances and dramatic circumstances. By the way, also other central banks proved credible in the advanced economy and it is now more or less a consensus, including in the UK, including in the US, that it is legitimate to give the central banks a lot of responsibility in this area. So, I would say again, much more chance to avoid drama but let's not be complacent. We might be surprised in the future because, you know, the global market economies are moving, technology is moving, the new challenges are coming and coming and coming, and we have to be vigilant personally ... I would say, all the time.

Mr. Brendan Halligan: Thank you. We now move to the questions from the committee, as I said previously, in the order in which the committee has determined for itself. The first question will be posed by the Chairman, Deputy Ciarán Lynch, and I now invite him to do so.

Deputy Ciarán Lynch: Thank you, very much Mr. Chairman, and good evening, Mr. Trichet. If I could maybe deal with one matter before we then continue with the proceedings this afternoon, and if you could then maybe explain the relationship between the European Central Bank and national parliaments in terms of accountability and why it precludes a representative from the European Central Bank appearing as a witness before the banking inquiry.

Mr. Jean-Claude Trichet: Well, I cannot speak of course on behalf of an institution, of which I'm no longer the president, and I have to be prudent there. I can only say that according to the legal analysis of the ECB as an institution ... and I think that my successor, President

Mario Draghi, made it clear to the Members of the European Parliament representing Ireland in the ECB, the ECB is accountable only to the European Parliament, where it comes to parliamentary accountability, as a European institution. So it's not possible in our own legal analysis to participate in national parliamentary inquiries, but of course we are fully at the disposal of the European Parliament. I think, when I look at the treaty that it is fully in line ... this analysis with the letter and also with the spirit of our treaties, because accountability has to be exerted on the level where decisions are made. For the ECB, clearly, as I said, it is the European level. At the moment I am speaking, the Governing Council of the ECB decides for what it is the best in its own view, taking into account the fact that we are 330 million fellow citizens and 19 countries, and that is clearly a responsibility that calls, it seems, to accountability at the level of the European Parliament. That does not prevent me to respond to you at the present moment.

Deputy Ciarán Lynch: Thank you, Mr. Trichet. The committee will be following up its own work with the ECB with Mr. Vitor Constâncio as well in the coming period. But if I can deal with some of the matters we would like to touch on with you this afternoon, can you tell us as to when you, maybe, have determined that there were issues with the Irish banks and at what time did you speak to anyone about this in Ireland's Central Bank or the Irish Government? And, added to that, can you tell us what, if any, controls were in place at an EU-ECB level to draw official attention to the rapid increase of funding in Irish banks in the years leading up to 2008?

Mr. Jean-Claude Trichet: This is, of course, very, very important. I would say that Irish banks, as others in the euro area, encountered liquidity and funding challenges from mid-2007. This was the subprime crisis and, for the ECB, it was 9 August 2007 that we had to embark on the first non-standard measures that we took in the crisis, which was 9 August 2007, to give liquidity to all banks in the euro area, without any limit, provided, of course, they had collateral. And that was an Irish issue, clearly a very, very important Irish issue, but it was an issue at the level of the euro area as a whole and we adapted again our market interventions to this potential illiquidity over a period. Fortunately, we could regain control of the money market after 9 August, but at the end of the year, we had again enormous problems, we embark again on an unlimited ... a limited supply of liquidity. But when we deal, as central banks, with liquidity issue, we have to stress that solvency issues were at the time not our problem but the problem of the Irish Financial Regulator and we have to rely upon, because there was no centralisation of supervision, we had to rely upon the judgment made by the national authority at that time and there was absolutely no suggestion that I could mention from the regulator that Irish banks were insolvent at the time. So, we enhanced our own survey of what was happening in Ireland in 2009, after Lehman Brothers collapsed, in light of concerns not just on the banking system but also on the fiscal situation and I would say that we had special attention, without being responsible, because again don't forget that the ECB is responsible for price stability without deflation, without inflation, for the euro area as a whole, but what we understood from the situation in '09 and '10 was that the funding challenges facing Irish banks was particularly acute and that providing assistance, in assisting the banks - and we responded to the crisis at the time - there was an immense call - I have mentioned that already - for refinancing coming from the banks in Ireland. And it became clearer and clearer over time that the funding concerns were, you know, due to deeper, more fundamental issues that were underlying. All taken into account, we, as I said, refinanced the Irish economy in a proportion which has been absolutely without any precedent or equivalent.

Deputy Ciarán Lynch: I have a final supplementary on that, just because I've a little bit of time. Prior to the eve of the guarantee, were the ECB engaged with any way with the Central

Bank or the Irish Government? That's the guarantee of September 2008.

Mr. Jean-Claude Trichet: I'm sorry, because the sound is not very good.

Deputy Ciarán Lynch: Yes. Sorry, Mr. Trichet, if you could just clarify, in the period of .... prior to September 2008, were the ECB engaged in any way with the Irish Government or the Irish Central Bank or Irish financial services in any manner related to the implementation or the design or the structure of a guarantee?

Mr. Jean-Claude Trichet: No contact between the Irish Government and either me or the ECB or, to my knowledge, other governments, because I had myself the other governments calling on me and saying, "What's happening?" Because at the time, you know, it's extraordinary in this time of crisis, the simple fact that the Irish Government had given the guarantee was considered by the global market a much better guarantee than any private signature and so the money was affluent and you can imagine which marketplaces were absolutely appalled to see that the money was getting out their marketplaces and going in Dublin. Of course, after, it appears that the views of the investors and savers were totally different and they considered that the creditworthiness of Ireland itself, the sovereign, was at stake.

Mr. Brendan Halligan: Thank you very much indeed. The second question is from Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat a chathaoirligh agus cuirim fáilte roimh iar-cheannaire an ECB chuig Baile Átha Cliath, an t-Uasal Trichet. Mr. Trichet, you said in your opening statement that the ECB had no responsibility at all for bank supervision or macro-prudential policies in member states, so, therefore, can you confirm that when the Irish financial stability reports were issued between 2004 and 2007, which indicated risk to financial stability, what the ECB did or did not do in relation to that? I want to particularly draw your attention to the stability report of 2004, which it states that: "It doesn't preclude the possibility of adverse developments which, should they materialise, would have serious financial consequences for households, corporates and banks". They talk about the risk of an unanticipated and sudden fall of residential property prices, accompanied by an increase in the default among mortgage holders and it goes on to say that this risk poses the greatest threat to the health of the banking system. So, did the ECB take any actions, any measures, as a result to try and intervene, to stop, to mitigate the risks that were outlined in that report published by the Central Bank? Was it discussed at the ECB board, for example, and if no action was taken, do you regret that? And should action have been taken?

Mr. Jean-Claude Trichet: Again, we have to be very clear. You have your own responsibility and each institution should ... and I know that a number of questions are also very concentrating on were you over and above your own responsibilities. Our own responsibilities were at the time very clear. We were responsible for monitory stability in the euro area, the treaty the primary mandate, and, again, without deflation, without inflation. Beyond that responsibility, we observed that the Stability and Growth Pact was not respected. We made the point extraordinarily clear several times that this was absolutely necessary, in our view, for the cohesion of the euro area. Beyond our primary mandate, we could see that nobody was surveying the evolution of competitiveness. We made the point since '05 at each meeting of the Eurogroup, every month, that some countries were losing their competitiveness. Ireland was part of the countries that were losing their competitiveness. All the figures were circulated every month to the governments. Again, we had no responsibility. It was clearly to the governments, to the Commission in some respect, to look at that, but we point to the figure.

As regards from a more general standpoint, the final, short stability issue at the time, where we had no particular responsibility in this domain, we made public remarks regularly on ... I would say both at a global level and at a European level. We considered, right or wrong, but it was strictly our own responsibility, that we had no responsibility in banking surveillance in Ireland; that it was the responsibility of the national authorities, and the national authorities - I'm not saying that in Ireland particularly - but all over the euro area were very, very keen in saying, "It is our responsibility" and I don't, you know, criticise them from that. It was the implementation of the system as it was at the time. It was not a good system and that's the reason why it has been totally changed.

Deputy Pearse Doherty: Okay. Mr. Trichet, you make the point that ... you pointed the finger to try and point out some of these issues and it's clear that the record will show that you yourself, as President of the ECB, had been warning as far back as 2005 in relation to the real estate prices and also the lending into construction. I would ask for your views in relation to the actions that were taken at a national level, after you pointed the finger in that direction, but can I also ask you ... you gave in your opening speech, a critique of the policies that existed up until the boom and the Irish economy that existed in that period. You mentioned unsustainable growth levels, half of fiscal revenues were from capital taxes linked to construction, public and private sector wages unrealistic, unit labour cost increased by 50%, loss of competitiveness, high inflation and so on. Can I ask you to respond to people who believe that you cheerleaded that type of scenario and what would be your response to that? Can I put to you in particular, when you came to Dublin on 10 May 2007 and held a press conference, and in response to a question about the Irish economy you said, "Very often I and my colleagues of the Governing Council are mentioning the Irish economy as a role model in many respects to the euro area in terms of growth, in terms of dynamism, in terms of job creation, in terms of long-standing reform strategy, with economic reforms that are paying off in many respects." How could that, in the mouth of the crisis, like, that comment stand given the critique, and very strong critique, that you had of the economy at that time? Thank you.

Mr. Jean-Claude Trichet: First of all, you have assets and liabilities in all countries. It is true that during all these times, before the crisis, during the crisis, after the crisis, the Irish economy proved a level of flexibility which had no equivalent in the rest of the European countries. So it is not surprising that I was praising that, because it was one of the major, major criticism that we had before the crisis, during the crisis and after the crisis on other countries. If Ireland has been the country that came out of the crisis more rapidly than others, and I would say, with all the painful exercise that it represents, more successfully than the other crises, it is because of this flexibility. I'm not surprised that at times I could be very laudative *vis-à-vis* this feature of the Irish economy when I would criticise others. To go back to the criticism, what is a lesson, a terrible lesson of the crisis, is that you can present the figures, show that you're losing competitiveness, show that you are going in front of future problems at the level of the euro area as a whole, at the level of any individual countries, in the United States of America, in the UK, everywhere, as long as there is no financial crisis the spontaneous tendency of the, I would say, executive branches is to say, "Let's go on. Why don't you ... it is not broken, why would you fix it?" And it is a terrible lesson that we have. We cannot rely upon market discipline to discipline the various entities at stake. We have to have a good governance. And that governance has to be applied, and this is the reason why SGP and MIP are, in my opinion, absolutely essential. As long as the crisis does not erupt everything was going admirably in the advanced economies.

Senator Sean D. Barrett: Thank you, Chairman. Were you personally aware of the deteriorating liquidity and solvency position in Irish banks in Ireland in 2008, in particular September 2008?

Mr. Jean-Claude Trichet: I was aware of the liquidity constraint, I have to say all over Europe, because, again, all the European banks, when they were desperately looking for liquidity, on 9 August 2007, and you are speaking of mid-2007, we decided, and it was a very, very important decision, and most important at that time, even in comparison with the UK, US, we decided to give liquidity without limit. We were asked that day, 9 August, €95 billion, much more than $100 billion, of liquidity. And the Irish banks were part of it. But again, at that time, it was a general problem.

Senator Sean D. Barrett: Did the Governor of the Central Bank of Ireland brief you or your officials in the ECB on the liquidity-solvency situation and the options being considered?

Mr. Jean-Claude Trichet: In September 2008 we had the collapse of Lehman Brothers, and we had again a problem, which was not an Irish problem at all, it was the house of cards of global finance which was collapsing. And after a sequence of events that were not on this side of the Atlantic, but were on the other side of the Atlantic, you had Bear Stearns, Freddie Mac and Fannie Mae, Lehman Brothers, after Lehman Brothers, AIG; you name it. This was the sequence of drama that we were observing. And we had at the level of the major central banks of the world to cope with that in a few half days and, as you might remember, it was on the Thursday following the Monday of the collapse of Lehman Brothers that we decided to provide liquidity on a global basis through swaps that we had with the Fed and the other central banks in order to be sure that all banks all over the world would have normal access to liquidity, even if they had no collateral in dollars, but collateral in the local currency. So that is the situation in September ‘08.

I would say the ... Ireland was one of all the advanced economies, one of course of the 15 I already mentioned in Europe, and we had the same, I would say, message for all, “We are in the worst crisis since World War II, make no mistake, it is exactly the situation, it is absolutely dramatic, you have to take that into account. On our side we are doing all that we can on the liquidity basis, you are responsible, your governments, for the solvency basis.” No different message for Ireland than for any for any other country at the time. And they were all, I have to say, in a dramatic situation.

Senator Sean D. Barrett: And did your officials give any advice to the Irish Government, or the Governor of the Central Bank on the decisions that had to be taken to deal with that situation in September 2008?

Mr. Jean-Claude Trichet: I mean, again, I did not provide particular advice on the situation in ‘08 because there was dramatic advice across the board for all nations, all governments. We were not kept abreast of any development in Dublin by the Irish authorities, and as regards the guarantee, we learned the guarantee through the media. So that was the situation. I don’t blame anybody, I don’t blame anybody. You have to understand that Ireland was one of the ships in a terribly agitated sea or ocean where, you know, everybody could sink, and the decisions were taken, again, at a global level. My main responsibility was to discuss with Ben Bernanke to see what we could do at the global level in order to avoid the drama.

Senator Sean D. Barrett: Thank you.

Senator Susan O’Keeffe: Mr. Trichet, *bienvenue en Irlande*.

Mr. Jean-Claude Trichet: *Merci beaucoup*.

Senator Susan O'Keeffe: The late and former Minister for Finance, Brian Lenihan, recalled in an interview that he did in September 2010, that he had picked up a message on his telephone, his own mobile telephone, from you on Saturday, 27 September 2008 that said, "You must save your banks at all costs." Can you tell us what your recollection is of that phone call, and what communication either preceded that or followed that, or what was going on at that time?

Mr. Jean-Claude Trichet: I have not read this paper. I had, you know, contact with Brian Lenihan that we're extremely confident, and you can see in the letters which have been published, which was the nature of our exchange, we had the sentiment that we cannot only rely upon oral discussions, that we had also to make things clear from his side and from my side, and that is the reason why we have written letters, which were at the time, as you know, totally confidential. I have not said that to Brian. We have said, all my colleagues and myself, not to Brian, to all governments, "Be careful." We had drama coming from Lehman Brothers. It's bankruptcy, it's an absolute drama, and all Heads of State and Government, to my knowledge, said there will not be a new Lehman Brothers in my courtyard. It was said by the Council European. It was said by the President of the US, it was said by Gordon Brown in the UK, it was said by all Heads of State and Government, and there was absolutely nothing peculiar for Ireland at that time - nothing. Ireland was particularly aware of the fact that it was very vulnerable, and I guess that it is the reason why the guarantee was decided.

Senator Susan O'Keeffe: So, just to clarify, Mr. Trichet, you or the ECB never gave any message to Ireland in September 2008 that no bank should be allowed to fail.

Mr. Jean-Claude Trichet: No message to Brian, no message to the Government of Ireland, but, if you read the papers at the time, all central bankers of the world were telling all governments, "Don't do again Lehman Brothers." So, put that in your mind. There was no call from me to Brian. It would not have been, you know, in line with what we were doing at the time, again, as I explained.

Senator Susan O'Keeffe: And again, during the hours that followed Saturday, through Sunday, through Sunday night, there were no phone calls, messages, conversations taking place between the ECB or its representatives and any member of the Irish Government or officials over that 24 or 36 hours?

Mr. Jean-Claude Trichet: To call for the guarantee?

Senator Susan O'Keeffe: Yes.

Mr. Jean-Claude Trichet: Again, no information of the guarantee, no call for the guarantee. And, again, what I am referring to was a blanket political guarantee but not a legal guarantee which was given by the various Heads of State and Government. They generally gave blanket political guarantee but not legal guarantee. The legal guarantee was criticised by the ECB-----

Senator Susan O'Keeffe: Yes.

Mr. Jean-Claude Trichet: -----in public, and the legal guarantee was the responsibility of the Government of Ireland. And, again, in a dramatic situation, I don't criticise the Government of Ireland myself, even if there was a point that we noted as not being optimal from our own legal standpoint.

Senator Susan O'Keeffe: So the Government didn't seek your advice and you didn't give it?

Mr. Jean-Claude Trichet: No.

Senator Susan O'Keeffe: And finally, you say in your own statement on page 7 today, "The wave of debt maturing in September 2010 issued under the guarantee – confirmed Ireland's loss of access to sovereign markets. Combined with other factors [...] the Irish government was confronted with no alternative but to ask for official support." Are you suggesting there, Monsieur Trichet, that the guarantee, effectively, the guarantee caused the bailout to happen?

Mr. Jean-Claude Trichet: No, I don't say that. I say that in the circumstances it was clear that there was a particular pressure which was exerted on Ireland. I would also say that it is difficult to redo the history of these dramatic events. As I said, at the time of the guarantee given by Ireland to its banks, we ... they had to cope with a total collapse of the banking system because, again, it appeared that the banking system in Ireland was probably one of the most vulnerable of the world, taking into account the dimensions of this banking system, the particular, I would say, inflation of balance sheets and so forth. So, the possibility would have been, perhaps, a total collapse of the Irish economy at that time, and we would not be there to discuss the recovery of Ireland and the success story of Ireland because there would be something totally different - a dramatic depression - in Ireland.

Again, we are speaking of a Government which is not there anymore. We are, unfortunately ... and I am very sad that, speaking of a Minister of finance that passed over ... I think that he did what he thought was the best in absolutely dramatic circumstances. And, of course, a lot of responsibilities were here but these dramatic circumstances were coming a few days or half days before from an incredibly dramatic event coming in New York and which the wave was coming immediately, in Ireland particularly but in the rest of the world also, as I said.

Senator Susan O'Keeffe: *Merci beaucoup*.

Deputy John Paul Phelan: Mr. Trichet, I want to ask you was there - and specifically in relation to liquidity and the collateral rules that were in force at the time - was there any request made by, or discussions with, members of the Government or the then Governor of the Central Bank, Mr. John Hurley, or any of his representatives in 2008 prior to the guarantee for additional or emergency funding from the ECB?

Mr. Jean-Claude Trichet: Prior to the guarantee ... so we are there after Lehman Brothers ... I have absolutely no memory of anything in particular at that time. Again, the problem was generalised; the problem was drama all over the world. And again, Ireland was touched dramatically as well. Only for you to know, I had to be in touch with many, many, many, many governments to explain that we had a global crisis and that the global crisis ... that we were doing all what we could but that we could do only liquidity assistance and not solvency assistance.

Deputy John Paul Phelan: I specifically asked the question because we've had evidence from a number of witnesses to the inquiry that has alluded to the fact that there were requests for changes to the collateral rules prior to the guarantee coming into effect, and those changes happened subsequently, a little more than two weeks after the guarantee came into effect in Ireland. Those changes meant that Irish banks had access to liquidity two weeks after the guarantee that they did not have access to prior to the rules being changed, and I just want you to recollect, if you can, why those requests from Mr. Hurley appear to have fallen on deaf ears.

Mr. Jean-Claude Trichet: Again, we are a set of 15 countries at the time - 320 million people, 330 million people. You're telling me that one particular country was saying, "Change the collateral for us." Is that right?

Deputy John Paul Phelan: Change the rules in general.

Mr. Jean-Claude Trichet: Change the rules, yes. I mean ... again, no pre-negotiation, no pre-discussion on the guarantee of any kind, no call for any dialogue on that. We have the guarantee which comes. The guarantee is a thunderbolt for many, many countries. As I told you already, no further discussion with anybody, no further discussion with any other governments, and all governments were, of course, shocked by the fact that one particular country was taking an extraordinary decision, including some of your neighbours. And, of course, I don't even imagine that there was anything linking guarantee in Ireland, collateral and so forth.

Deputy John Paul Phelan: Just that the rules were subsequently changed about two weeks later.

Mr. Jean-Claude Trichet: If rules were changed, they were not changed for Ireland; they were changed for 15 countries and 330 million people.

Deputy John Paul Phelan: Can I ask you in my final supplementary did you try to achieve any changes, or the ECB as well, try to achieve any changes in the decision on the guarantee before it was put into place?

Mr. Jean-Claude Trichet: But I already said that there was no contact with the Government before the guarantee was decided.

Deputy John Paul Phelan: I'm talking about subsequent to the announcement but before the legislation was enacted.

Mr. Jean-Claude Trichet: We were, as is obvious because it was published, to my knowledge - I don't have here the paper but you have it; it is public - we were criticising the guarantee.

Senator Michael D'Arcy: Could you outline the involvement of the ECB in the recapitalisation of the Irish banks to merging of the Irish banks and the nationalising of Anglo Irish Bank in 2008?

Mr. Jean-Claude Trichet: Again, all these decisions were decisions of the Government of Ireland if I am not misled. We had 15 countries that had all more or less the same problem, the same difficulty, with many countries obliged to sustain some of their institutions by various means. I cannot say anything but, we at the time were supporting Ireland through our own refinancing more than any other country and I have to say, more to my knowledge of all other advanced economies, whether they are in the euro area or out of the euro area. I already told you that at the time our help to Ireland represented 100% of the GDP of Ireland. So you have to realise what it means for a central bank to do something which represents a multiple of what the Fed did for the United States of America. I mentioned that *en passant*.

Senator Michael D'Arcy: Mr. Trichet, in evidence this morning, Mr. Brian Goggin, CEO of Bank of Ireland, stated that he had discussions with representatives from the Central Bank of Ireland to take over Irish Life & Permanent and in that scenario, Anglo Irish Bank and Irish Nationwide would be stood down. He also stated that he was told that it ''was virtually certain'', his words, that Anglo Irish Bank would default the next day.

Were you aware that Anglo Irish Bank was virtually certain to default the next day? And if you were not aware, should you have been aware?

Mr. Jean-Claude Trichet: Again, it was not the responsibility of the ECB to survey the banks. We were relying of course upon the local authorities for surveillance and on possibly governments in case the drama would unfold. So no memory, no I would say responsibility in this domain. I trust again in these very difficult circumstances I understand fully and it's normal that everybody can't see whether good decisions were taken or so forth. All taken into account, taken the drama which was unfolding it seems to me that the decisions which were taken by Ireland, and I don't want to enter if it was the previous Government, the following Government, the various institutions concerned, those decisions were probably the best ones or the least worst in dramatic circumstances. That's my understanding.

Senator Michael D'Arcy: Should you have been aware? Governor Hurley was in the room, he was a member of the Governing Council of the ECB.

Mr. Jean-Claude Trichet: It has to be reflected upon. You are telling me that a bank was about to collapse the next day?

Senator Michael D'Arcy: Yes.

Mr. Jean-Claude Trichet: And that it was known by the local authorities ... by the local surveillance authorities.

Senator Michael D'Arcy: Yes.

Mr. Jean-Claude Trichet: And I ... my working assumption is that the local surveillance authorities was probably considering that they would avoid the drama. I cannot respond. I don't know.

Senator Michael D'Arcy: It is unbelievable you were kept in the dark.

Mr. Jean-Claude Trichet: Pardon me?

Senator Michael D'Arcy: It is unbelievable that you were kept in the dark as the president of the ECB.

Mr. Jean-Claude Trichet: I don't know what is believable or unbelievable.

Senator Michael D'Arcy: Is it believable?

Mr. Jean-Claude Trichet: Pardon?

Senator Michael D'Arcy: Is it believable?

Mr. Jean-Claude Trichet: Is it believable? I mean ... was a solution found? Was a solution found ... in that case?

Senator Michael D'Arcy: Can I ask you Mr. Trichet -----

Mr. Jean-Claude Trichet: No, I'm sorry. You are asking me things that of course you remember. I have in mind 15 countries and many, many, many, many, many, many issues. So you are asking me a very specific point. And you seem to reproach if I understand well, to the head of the national supervision in Ireland not to have told me something which was very, very grave. I have to, again, know better the circumstances. What happened the next day? There was a bankruptcy?

Senator Michael D'Arcy: It was a guarantee. As you know.

Mr. Jean-Claude Trichet: Yes. I'm sorry, you are speaking of the guarantee given by the Government?

Senator Michael D'Arcy: Yes.

Mr. Jean-Claude Trichet: Yes, of course I told you the guarantee was not pre-negotiated before. Full stop.

Senator Michael D'Arcy: Can I ask you Mr. Trichet, if you got a phone call during the night of 29 September 2008 and been told that the Irish Government had decided that Anglo Irish Bank and Irish Nationwide Building Society were being allowed fail as a result of their insolvency, what would your reaction have been?

Mr. Jean-Claude Trichet: It's an assumption ... a hypothesis. I'm sorry, what is exactly your question?

Senator Michael D'Arcy: Exactly the question is if you had got a phone call during the night -----

Mr. Jean-Claude Trichet: If I had ... if I had it -----

Senator Michael D'Arcy: Yes.

Mr. Jean-Claude Trichet: If I had a phone call during the night -----

Senator Michael D'Arcy: That Anglo Irish Bank and INBS were going to fail the next day, what would your reaction have been?

Mr. Jean-Claude Trichet: Same reaction as with all Heads of State and Government all over Europe. Same reaction as all my colleagues would have had in the other advanced economies. You could see what happened after Lehman Brothers. You are in exceptional circumstances ... it's the worst crisis ever since World War II. Could have been by the way, the worst since World War I. Assume fully all your responsibilities. That being said, the central bank does not substitute and should not substitute in any respect to the responsibility of the executive branches and certainly not to the responsibility of the parliament.

Senator Michael D'Arcy: Okay.

Mr. Brendan Halligan: Thank you very much, Senator. Now we will go back to the questions from the members. This question is framed around one put by Michael Tutty. Do you think that there is equal treatment in the euro area between big and small countries, for example, France being regularly allowed to delay reaching the 3% deficit target, and surplus and deficit countries, for example, no action being taken to reduce the German current account balance of payment surplus? And, if not, what should be done about it?

Mr. Jean-Claude Trichet: Good question. As I already said, the first breach of the Stability and Growth Pact came with the big countries. And I had to counter myself France and Germany under the chairmanship of Italy that were very, very, fiercely attacking the Stability and Growth Pact. It was ... I am on record *vis-à-vis* the European Parliament to have said that the stability and the cohesion of the euro area were depending on ... heavily depending on the Stability and

Growth Pact ... and it was the big countries. We saved the letter of the pact, the spirit of the pact was largely destroyed and we saved a letter of the pact with the small countries ... clearly ... that were appalled by the big countries. In the present period, I call for all countries to go by the rule. I think that experience has demonstrated, and we learned the hard way, that we have to respect the framework of the European euro area governance ... and I will call for all countries to apply by the rule. So it's a big problem ... big and small.

Second part of the question - surplus and deficit. It is true that the MIP is a very important pillar to survey both, I would say, the loss of competitiveness and the external imbalances of the kind of deficits and also of the possible excessive imbalances when there is an accumulation of surplus countries. And there again, I think that it is very important that the Commission and the Council apply by the rules of SGP and MIP. The Commission because it has a decisive role to play of course in handling this governance pillar and the Council because the decisions are taken by the Council.

Mr. Brendan Halligan: And the last question is from Mr. Pat Cox, the former President of the European Parliament. "Do you accept that without a stabilisation policy capable of responding to asymmetric economic shocks, that there cannot truly be a genuine economic and monetary union?"

Mr. Jean-Claude Trichet: I think that it is a very, very important point. We normally have a certain capacity in the euro area to respond to asymmetric shocks because, let's not forget, in normal times the fiscal balance should be balanced or in surplus ... in normal times. And it's in difficult times that we can go down to minus 3%. So normally, all countries should ... in normal times ... in times of asymmetric shocks, those who are hit by the asymmetric shock should have 3% of GDP of fiscal cartridge, if I may, to utilise and try to resist the crisis. That's one. You will tell me perhaps 3% is very meagre, it should be higher and so forth - but it is the rationale behind the balance of in surplus rule.

Another very important point is the point of banking union and, I would say, capital union more generally as is mentioned now. Because it is clear in the United States of America that to resist an asymmetric shock the capital union, or the financial union, of the United States of America plays a very important role - because the financial risks are disseminated all over the US and because the credit is more abundant to finance states that have more difficulty. So I think that through both the SGP, on one hand, and this banking union ... capital union, on the other hand, we have two ways of being perhaps on the safer side. Now, when we speak of the embryo of budget of the euro area, or more than a number of budgets of the euro area, we are also thinking of a possible cushion in terms of problems. But, it is more for perhaps for the euro area as a whole, for the entire euro area, if there are particular shocks to weather. But again I think that we should not forget that not only the fiscal channel is important to resist and, I would say, weather asymmetric shocks but also the capital union ... financial union.

Mr. Brendan Halligan: Thank you very much for that response. We move now to the second round of questions from the committee and I'm calling on Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Mr. Halligan. Mr. Trichet, my questions relate to burden sharing and whether or not the ECB sought to influence the decision of the Irish Government on burden sharing with senior bondholders from 2008 to 2013. Just to give some context to the question, in September 2010 the guarantee expired and some €20 billion of unsecured senior bonds came out of the guarantee. Roughly €4 billion of these bonds were issued by Anglo and INBS, two banks that no longer exist. So did you or the ECB influence or seek to influence the decision of the Irish Government to repay these unsecured, unguaranteed senior bonds?

Mr. Jean-Claude Trichet: I again have to go back to what we already said. In 2010 it seems to me that there was a broad consensus that burden sharing, this kind of burning of senior debt, was a very unwise course of action. The Irish authorities considered that it was an unwise course of action, but I can refer to the way all other Europeans were looking at it and the way, I would say, the way the international communities - of the advanced economies, on the other side of the Atlantic, everywhere - were considering. So, again, it's very ... all this is very complex. The guarantee was the initiative of the Government of Ireland without pre-discussion with anybody ... surprising other governments which, for most of them, embarked only on what I have called a blanket political guarantee. That's for one. So an initiative of the Government of Ireland, which was not at all a global consensus or a European consensus.

For the particular problem of the burden sharing, in '10 there was a consensus, it seems to me ... very clear. Later, in 2011 there were discussions on this particular point. I have to say that the overall risk of a new round of financial instability at the moment where the main goal of Ireland was to regain creditworthiness, to get back the investors and savers instead of having them putting their money out, was, in my understanding, justifying the decision which was taken. As far as we were concerned, we had put 100% of the GDP of Ireland to help support Ireland and all the entities in Ireland.

Deputy Eoghan Murphy: Mr. Trichet-----

Mr. Jean-Claude Trichet: There is no equivalent of that anywhere in the world ... and, of course, it was because you had a loss of creditworthiness and also credibility-----

Deputy Eoghan Murphy: Mr. Trichet, I don't mean to interrupt ... if I could take you back to 2010 though. These were unsecured, unguaranteed senior bonds and there was not consensus with the IMF on whether or not they should be repaid. Is that correct? Did the ECB and the IMF have a different view on whether these bonds should be repaid in 2010 - Q3, Q4?

Mr. Jean-Claude Trichet: In '10?

Deputy Eoghan Murphy: Yes, in '10.

Mr. Jean-Claude Trichet: In '10 I have no memory-----

Deputy Eoghan Murphy: In September-----

Mr. Jean-Claude Trichet: I'm sorry, I have no memory of anything that would have been a difference of views between the IMF and the ECB. Absolutely. In '10.

Deputy Eoghan Murphy: In '10. Prior to the bailout and coming in to the negotiations of the bailout, did the ECB and the IMF have the same view on burden sharing in the course of those negotiations in relation to unsecured, unguaranteed bondholders?

Mr. Jean-Claude Trichet: Again, I was myself not in touch with the IMF, it was my collaborators. So, I don't think, again, that in '10 there was, at least I have not in mind the fact that there was not a broad consensus that burden sharing was unwise. Perhaps a collaborator of the IMF thought otherwise, certainly not the IMF, certainly not the board of directors of the IMF, certainly not the MD of the IMF. I cannot discuss with individuals, you know. You are asking the question, perhaps you could give me the name of the individual who said to you that, that would help.

Deputy Eoghan Murphy: An adviser to Brian Lenihan at the time claimed that-----

Mr. Jean-Claude Trichet: Pardon me?

Deputy Eoghan Murphy: An adviser to the Minister for Finance Brian Lenihan, at the time, Alan Ahearne-----

Mr. Jean-Claude Trichet: An adviser of Brian-----

Deputy Eoghan Murphy: Of Brian Lenihan's, claimed that the IMF agreed that, in principle, the unsecured, unguaranteed bondholders should not be repaid. This is in the course of the negotiations for the Irish bailout.

Mr. Jean-Claude Trichet: Again, I have the memory that. In '11 it might have been the case, not in '10. But, again, I give you my own memory.

Deputy Eoghan Murphy: If we can go to '11 then, seeing that's the point in time which you do remember clearly. In March 2011, the new Irish Government was considering not repaying €6 billion in Anglo Irish bonds. There was three phone calls between the ECB and the Irish Government on 31 March - two between yourself and Minister Noonan and one between yourself and the Taoiseach. And after that the decision to not pay those bonds was reversed. Did you say, in effect, that an economic bomb would go off in Dublin if these bonds were not repaid?

Mr. Jean-Claude Trichet: You are referring of ... conversations ... phone calls?

Deputy Eoghan Murphy: Conversations that you had with our Minister for Finance at the time ... 31 March 2011, Michael Noonan and with An Taoiseach, Enda Kenny. And you said to the effect that an economic bomb will go off in Dublin -----

Mr. Jean-Claude Trichet: I will certainly have utilised metaphor of that kind ... would have been totally not in line with the relationship I had with the Government. What I certainly said, because we had discussed that in the Governing Council of the ECB, was that it was unwise to do that. And that was our strong feeling at the time where Ireland was helped by us more than any other country in ... as I already said, in Europe, and perhaps in the world. So let's put yourself in the situation. We have a country which is progressively regaining competitiveness in very, very difficult times. We expressed only the sentiment of the Governing Council to the Government or Ireland. The Government of Ireland is responsible and the Government of Ireland takes decisions.

Deputy Eoghan Murphy: And Ireland was receiving assistance from you at the time, but did you threaten to withdraw ECB assistance to Ireland if we did not repay those bonds?

Mr. Jean-Claude Trichet: That has no meaning. That has no meaning.

Deputy Eoghan Murphy: Did you threaten to withdraw European assistance to the Irish national sovereign if we decided to-----

Mr. Jean-Claude Trichet: No, certainly not. No. You know exactly what were our relationship. We have published our letters. Full stop. You have to know ... you know with the adjective, the comma, the full stop, exactly what was our relationship with Ireland. You have the letters ... the four letters that have been published. The rest of it I can only ... I assume totally the fact that the Governing Council of the ECB considered it was not appropriate for Ireland in the situation in which Ireland was, which was one of the worst you could imagine, to go along this burning and that you would have had probably a lot of very adverse consequences. It was finally what was decided by the Government, if I'm not misled. The decision was not taken by the ECB.

Deputy Eoghan Murphy: Thank you.

Mr. Brendan Halligan: Deputy Joe Higgins ... okay, then Deputy Kieran O'Donnell.

Deputy Michael McGrath: No, I think, chairman-----

Mr. Brendan Halligan: Well, this is the order that I have.

Deputy Michael McGrath: No, I'm next, chairman.

Mr. Brendan Halligan: Okay, sorry. Michael McGrath.

Deputy Michael McGrath: Okay.

Mr. Brendan Halligan: My apologies to you. I was wrong, which is very unusual.

Deputy Michael McGrath: Thank you, chairman.

Deputy Kieran O'Donnell: We're all apologising today, chairman.

Deputy Michael McGrath: Thank you, chairman. You're welcome to Ireland, Mr. Trichet. As you said in your opening remarks during the lecture, "The ECB indeed does not have any authority to issue instructions to any euro area government or its ministers." So, against that backdrop, can I ask you to identify what article, if any, of the treaty establishing the ECB, provides for the type of direction issued to Brian Lenihan in your letter on 19 November 2010 pertaining to issues that would appear to be outside of your direct mandate in terms of fiscal consolidation, structural reform, etc.? And is it not the case that in that letter the ECB issued a very clear, direct and unambiguous threat to the Irish Government, that if it didn't apply for a bailout the ECB would turn off the life support machine for Irish banks?

Mr. Jean-Claude Trichet: Thank you very much. It's a very important question. And, as I referred to a moment ago, it was because Brian and I wanted to be absolutely clear on what was the relationship between the ECB and the Government on top of all of, I would say, exchange of views in this very, very dramatic circumstances. Responsibility for the provision of ELA lies with the NCB concerned, so the national Central Bank of Ireland. In this particular case, as in all other cases, and you have a number of cases even today, the Governing Council's related competence is based on Article 14.4 of the statute of the European system of central banks and of the ECB itself, the European Central Bank. The Governing Council of the ECB may restrict the performance of national functions, such as ELA operations, if it considers that such operations would interfere with the Eurosystem objectives and tasks. This means that if the ELA is provided in large amounts, the Governing Council needs to assess the features of the transactions, their liquidity effects, and whether it would be appropriate to impose specific conditions in order to protect the integrity of the ECB's monetary policy.

Additional procedures underlying the Governing Council's role with regard the provision of ELA are aimed at adequately ensuring that these arrangements and their potential effects do not interfere with the single monetary policy. Moreover, the Governing Council has to adhere to the prohibition of monetary financing. In the case of Ireland, the level of liquidity provided by the Eurosystem in support of the Irish economy had reached, by November 2010, around €140 billion, including ELA. It was representing around 85% of Irish GDP. I mentioned 100% at the peak afterwards and 85% was, of course ... has no equivalent the world over. So this represented one quarter of the ECB's total lending at the time; one quarter for Ireland in a euro area where you have Spain, Italy, Germany and the like, and it was a totally unprecedented level, of course. And in the letter you are referring to, implicitly we ... I was saying ... whenever ELA is provided in significant amounts, the Governing Council needs to assess whether it is appropriate to impose specific conditions in order to protect the integrity of our monetary policy. In addition, to ensure compliance with the prohibition of monetary financing it is essential to ensure that ELA recipient institutions continue to be solvent. And it is this latter consideration, the solvency of the institution, that is reflected in the four points mentioned in that letter, that would be absolutely necessary in the view of the Governing Council of the ECB to ensure continued solvency of the Irish banking system.

Deputy Michael McGrath: But, Mr. Trichet, with respect, the letter goes way beyond the solvency of the institutions. The letter refers to issues that form part of a national competence, fiscal consolidation, a general reference to structural reforms. And, would you not agree with the comments of the IMF mission chief to Ireland, Ajai Chopra, during an address to Oxford University, where he said your letter represented an outrageous over-reach of the ECB mandate? Did you not, in effect, put a gun to the head of the Irish Government to apply for a bailout, or else the banks would have the life support machine cut off?

Mr. Jean-Claude Trichet: No, I would certainly say, taking into account that the 100% correlation between the creditworthiness of the country and the creditworthiness of the banks, we had, again, a problem which was the problem of the country and the problem of the banks, and it was our duty to express, as we did with other countries ... it's not ... certainly not the case of Ireland ... orally or in a written form, and exactly as I did, the fiscal policy consisting ... or not following the Stability and Growth Pact is a bad one. It was the duty of the ECB to say that and it was equally the duty of the ECB to list the issues where we thought, *en âme et conscience*, as we say, to the best of our own observation and knowledge in dramatic circumstances where we had already helped Irish ... Ireland more than any other country in the world, it was our duty to list what we considered appropriate. By the way, the Government of Ireland ... and I knew that through Brian, was itself reflecting along all those lines, and it was, you know, referring to what was fortunately in the pipe in Ireland and has been successful in Ireland.

Deputy Michael McGrath: Mr. Trichet, did you attend a meeting at the G20 summit in Seoul on 11 November 2010 along with Olli Rehn, Timothy Geithner, Wolfgang Schäuble, where it was, effectively, decided that Ireland had to enter into a bailout programme to stop the threat of a wider banking crisis, and was that conveyed by telephone to Brian Lenihan the following day, on 12 November?

Mr. Jean-Claude Trichet: The G20 would have decided what Ireland should do?

Deputy Michael McGrath: A meeting you had on the fringes of that with the persons I named.

Mr. Jean-Claude Trichet: A meeting I had?

Deputy Michael McGrath: Yes.

Mr. Jean-Claude Trichet: Ireland was present in the-----

Deputy Michael McGrath: No, Ireland was discussed.

Mr. Jean-Claude Trichet: Pardon me?

Deputy Michael McGrath: Ireland was discussed. The situation in Ireland was discussed and that was the conclusion.

Mr. Jean-Claude Trichet: I'm sorry, who told you that, in order for me to have the memory of a meeting on Ireland in the G20 in Seoul on which day?

Deputy Michael McGrath: 11 November.

Mr. Jean-Claude Trichet: 11-----

Deputy Michael McGrath: I'm asking you did it happen. I can't confirm it happened because I wasn't there, but you can confirm whether or not such a meeting took place.

Mr. Jean-Claude Trichet: On 11 November, there was a meeting in Seoul. Whether we discussed and with whom exactly, Ireland, to impose Ireland, if I understand. So it's not the ECB which is at stake now.

Deputy Michael McGrath: No, to arrive at a conclusion that they tried to contain the crisis and to prevent contagion elsewhere in Europe and indeed globally, that it was in the best interests of Ireland to enter the programme, and you subsequently had a conversation with Mr. Lenihan on 12 November, delivering that message.

Mr. Jean-Claude Trichet: So who told you that on 12 November, I had a conversation with Brian?

Deputy Michael McGrath: This has been reported Mr. Trichet, and I'm asking you to confirm whether or not it took place. I wasn't there, I wasn't party to a conversation, you can say whether it happened or not.

Mr. Jean-Claude Trichet: No, I cannot because ... because I have to look at all my notes and all my papers. So all I can say-----

Deputy Michael McGrath: I think you would remember-----

Mr. Jean-Claude Trichet: But you have the letter, if I am not misled. So what do you need, on top of the letter?

Deputy Michael McGrath: I suppose, what I am asking you is if it had been decided before that. Now we know, it certainly has been reported that persons from within the ECB were briefing the media, in the days leading up to the formal announcement of a programme, that Ireland would have to enter into a programme. So the question is, had the ECB arrived at a conclusion, prior to that letter to Minister Lenihan on 19 November, that Ireland would have to enter a programme? And you backed that up with a very firm threat in the letter on the 19th.

Mr. Jean-Claude Trichet: So the idea... the question is, whether a decision was taken by, I don't know whom .... governments in the occasion of the G20 or the Central Bank. I mean it is clear, the sentiment of the Central Bank Governing Council is clear, and you have the succession of letters. A first letter, a response by Brian, second letter and if I am not misled, a response by Brian. So you see exactly what was the position I was expressing always on behalf of the Governing Council. And that has nothing to do with any meeting with bodies or persons, I don't know. I only can say that it was clear that without embarking on a clear-cut plan that would improve credibility of the signature of Ireland, would have been probably impossible to get back to the success we can.... we can see now. And my own, you know, sentiment, the sentiment of the Governing Council is absolutely clear in the letter and I am very happy that there has been a letter because otherwise we would discuss ... you know leaks coming from beyond there.

As regards the collaborators of the ECB, I don't imagine for one second that there would have been any press briefing on what Ireland should ... should do or not do, it is not the way the ECB operates and I would... I have absolutely no memory of anything which would look like that and it doesn't seem to me that Brian had told me that. Brian told other things, he was not happy at all, as we know, with other things and particularly with the Deauville agreement in particular. But for what you have said, again I have nothing to add to what I said myself in writing.

Mr. Brendan Halligan: Okay. Deputy Higgins?

Deputy Joe Higgins: Go raibh maith agat, a chathaoirligh. Mr. Trichet, was the involvement ... what was the involvement of the European Central Bank in the decision of the Ireland Government to seek a so-called troika bailout? And did the ECB threaten sanctions if it wasn't sought?

Mr. Jean-Claude Trichet: I already responded to this question. We had, again, a situation which was totally dramatic-----

Deputy Joe Higgins: Yes, okay. Let me be more specific then. In your letter then to the Minister for Finance on 19 November you said "It is the position of the Governing Council that it is only if we receive in writing a commitment from the Irish Government, vis-à-vis the Eurosystem on ... four ... points that we can authorise further provision of [emergency liquidity]." And then you say that a request must be sent to the Eurogroup. "The request shall include the commitment to undertake decisive actions in the areas of fiscal consolidation, structural reforms and financial sector restructuring." , what we call savage austerity in Ireland. Mr. Trichet, plain people, plain-speaking people in Ireland would call that blackmail. Would they be justified?

Mr. Jean-Claude Trichet: Sir, we had helped Ireland more than any other country. It seems to me that there is something which is missed here. We were the institution which was helping Ireland much more than any other central bank did for any country. In the case of the United States, the Fed would not have $4 trillion in its own balance sheet, at the moment we are speaking, but if the Fed would have done for the United States of America what we have done for Ireland, the Fed would have been, probably something like, $10 trillion, $12 trillion, $13 trillion. So let's... we have to have that in mind.

Second, what is not clear enough in your observation is that the relationship with Brian was extraordinarily confident. Brian knew that we were helping Ireland more than any other country, we had a lot of discussion on that. He was thanking me for the help he received. And he was in favour, of course, of a recovery programme, of a good plan that would permit to put Ireland back on it's feet. So it's nothing to do with the kind of presentation one could make.

Deputy Joe Higgins: Well-----

Mr. Jean-Claude Trichet: It's exactly the contrary. We were together on the same side, trying to get out of a situation which was, unfortunately, the most dramatic you could imagine. And it's succeeded.

Deputy Joe Higgins: Yes.

Mr. Jean-Claude Trichet: We are in a situation were you get out of that, remarkably well.

Deputy Joe Higgins: The question Mr. Trichet is, were you there to save the Irish people or were you primarily interested in saving the big European bankers who were heavily exposed in Ireland? And up to 2008, capitalist European bankers and bondholders, as you know, gambled wildly and speculated on commercial and residential property. And created a huge bubble in pursuit of super profits. Now that is what capitalists do in the financial markets. But when their gambles crashed Mr. Trichet, how do you justify placing their massive burden of private debt, private debt, onto the shoulders of the Irish people who had no hand, act or part in their dealings? How do you justify the taking of €60 billion from the public services and the living standards of our people, putting them into the European financial markets? How do you justify that morally?

Mr. Jean-Claude Trichet: You have a very very important question of course, which is more general, because the question is asked to all governments the world over and particularly to all, I would say, advanced economies. Because we are speaking of a crisis of the advanced economies, which started in New York, as you know with the sub-prime and with Lehman Brothers. And that has happened everywhere and I fully agree with you. This speculation was totally unleashed, Ireland was very unfortunately a case in point as were, unfortunately, all financial markets in the world. Otherwise we wouldn't have this generalisation of the drama to all advanced economies of the world. So the question is absolutely right and absolutely good in all the advanced economies.

The only issue is, would have we been better off for our fellow citizens if we had had the Great Depression, '29 and '30 like? In which situation would have been our people if we would have had the Great Depression? In the opinion of, to my knowledge, all governments without any exception they all considered that, it's not the Irish Government particularly, they all considered that it would have been much more dramatic and that it was good for us to avoid the dramatic Great Depression.

That is all of what I can say, but never again. I fully agree with you, never again.

Deputy Joe Higgins: Well, Mr. Trichet, you didn't address if it's moral just and right that the private debts of bankers, because of their reckless activity, should be put onto our people and seven years of massive austerity. And my last question to you, Mr. Trichet ... you spoke of a consensus in late 2010 that essentially burning bondholders was too risky. Can I ask you, Mr Trichet, who was the consensus with because I would suggest to you that perhaps hundreds of millions of European citizens would agree that the big financial institutions should take a hit, not ordinary working people? And you spoke about democratic accountability and legitimacy in your address. Can I ask you how is it democratic that faceless, unelected financial speculators in the so-called financial markets can dictate to elected governments, can dictate to the ECB that they should not be burned out ... that they should be compensated for their gambling and that the majority should suffer? How is that democratic in the European Union?

Mr. Jean-Claude Trichet: In the European Union and in the rest of the world, because again we are speaking of a drama which has gone in the US, in the UK and was anticipated, if I may, with the Japanese problem. So the questions you are asking are very good ones. They have been examined by the international community as a whole because the problem that you are asking has been considered by every nation in the circumstances, and the response was we were taking the least bad decision, taking into account that the possible event would have been absolute drama of a great depression in one particular country in the advanced economies as a whole. And this was driving us to this blanket political guarantee, I have been mentioning ... You know pretty well in the UK there has been nationalisation of two banks, that in the US they have managed to avoid AIG, that in a number of other countries, the various institution were also ... they avoided the drama. All that being said, why did we do that? I mean I'm speaking of the governments because we were delivering ourselves liquidity. The central banks, the governments had to come up with a solvency issue. They did that because they wanted to avoid the much more dramatic consequence on their own people, on our fellow citizens, should not be repeated. How should not repeat ... how manage not to repeat that? The system must be much more solid so we have improved at the level of the international community the prudentials considerably, we have improved the capital requirements, we have improved the liquidity ratio, we had ... are tackling with a lot of other issues.

I do not want to say that it's over. In my opinion, we are exactly at the middle of the road in terms of making the financial system much more resilient, much more solid to avoid to be placed in this ridiculous situation, and with a system much more solid where you can have bankruptcy of an individual institution without putting the entire system at stake, you must have rules *ex ante* and we have now rules *ex ante* in Europe in order to know in which order you are burning creditor A, creditor B, creditor C ... of course, first, the shareholders, second, a number of creditors that are not sub ... and, and, and in order to be sure that we know what to do in such circumstances. It is true that when Lehman Brothers collapsed there was no such rules. The system was incredibly fragile. I gave you that my own mind was entirely, after Lehman Brothers, concentrating on how to avoid the collapse of the house of cards because it was exactly what we had in front of us. So whether or not we have taken all the necessary decisions drawing on the lessons of the crisis is the right question. I would say we have taken a lot of them; we still have a lot of hard work to do. And it's true at the level of each nation, true at the level of Europe, true at the level of the world.

Deputy Kieran O'Donnell: I want to welcome Mr. Trichet to Ireland and can I just ... a couple of points on the bailout. The letter that you sent to Minister Brian Lenihan on 19 October 2010, and then the follow-up letter that you sent subsequently on the ... sorry, 15 October was the first letter and the follow-up letter of 19 November 2010, where you effectively requested the Irish government to seek a bailout, is a complete change in tone, Mr. Trichet. What was the reason for that change in tone? And if the Deauville declaration had not happened, would Ireland have ended up in a bailout?

Mr. Jean-Claude Trichet: I think that, again, because we exchanged letters, you have exactly the situation. After Lehman Brothers, I have mentioned the fact that within two days, two working days, we had to devise at the global level, mechanism permitting to try to avoid the collapse of the system. And it was at the global level; things are going pretty fast in terms of dramatic crisis. It's clear seen from the letter that the situation on the 15th, was not the situation of the 19th, as you said, so, say four or five weeks afterwards. And I have to say that the letters, the exchange of letters, made clear that as lender of last resort, looking at a situation which was deteriorating by the day, we could not continue to be the lender of last resort to institutions which were clearly considered insolvent by all their environment, their financial environment.

Deputy Kieran O'Donnell: Mr. Trichet, did you envisage in your letter when you wrote on 15 October ... did you envisage that Ireland would be going into a bailout?

Mr. Jean-Claude Trichet: Pardon me?

Deputy Kieran O'Donnell: When you wrote the letter to Minister Brian Lenihan on 15 October, did you envisage that Ireland would be going into a bailout? Did you think Ireland would be going into a bailout?

Mr. Jean-Claude Trichet: Again, the Irish were - with Brian which was my interlocutor in the circumstances - doing all that they could to put the country on its feet. Going to a bailout is always a very difficult decision ...

Deputy Kieran O'Donnell: But you didn't request ... there was no request in the letter of 15 October?

Mr. Jean-Claude Trichet: Yes, the letter is the letter. The letter is there.

Deputy Kieran O'Donnell: Can I ask as well that ... there was a very dramatic moment in Ireland on 18 November, the day before you wrote the letter of 19 November where Governor of the Irish Central Bank, Professor Patrick Honohan, from Frankfurt rang our national broadcaster, RTE radio, to basically signal that Ireland would be going into a bailout. He was to attend a meeting of the governors, your ECB governors that morning, that day. Did you instruct him to effectively go on Irish airwaves to say that Ireland would be going into a bailout?

Mr. Jean-Claude Trichet: You are referring now to a public remark made by the Governor of the Central Bank?

Deputy Kieran O'Donnell: Correct.

Mr. Jean-Claude Trichet: After the meeting of the Governor -----

Deputy Kieran O'Donnell: No, before the meeting. The meeting was at 8.50 a.m. ... He came onto national ... he rang national radio, "Morning Ireland", RTE - it's a very well known radio programme, well respected - and he effectively asked to go on the airwaves and he announced ... we would appear, unbeknownst to the Irish Government that Ireland would be going into a bailout. The two questions I have: did you, as ECB governor, request that he do that? And, secondly, what view did you take after he had made that public announcement?

Mr. Jean-Claude Trichet: I have absolutely no memory of any public announcement by the Governor. I certainly didn't ask him to make public anything. If I wrote the letter, it is because we had ... I had a position of the Governing Council. Remember, all what I say, all what I write is because there is a Governing Council decision. There is no individual *vagabondage* if I may. All is the position of the institution. So I cannot tell you why the Governor said that. Is it because we had already had...

Deputy Kieran O'Donnell: Well, if you had ... You must have had a meeting very early in the. .. morning ... you must start very early in the morning in Frankfurt, Mr. Trichet.

Mr. Jean-Claude Trichet: All the governors?

Deputy Kieran O'Donnell: No. It was a meeting. He rang from Frankfurt at 8 o'clock in the morning to the national broadcaster, RTE "Morning Ireland", to state that Ireland would be going into a bailout programme.

Mr. Jean-Claude Trichet: I tell you, if he said that, it was because probably he was aware of the fact that the Governing Council position was that we could not continue to do what we had done. You have all the positions of the Governing Council in my letter.

Deputy Kieran O'Donnell: In the letter ... I'm quoting from the letter of 19 November. "As Patrick Honohan knows, [it's the second paragraph] the Governing Council has been asked yesterday to authorise new liquidity assistance which it did." The letter is dated 19 November so that is from - this happened on 18 November. Would you have told Professor Honohan, as Governor of the Irish Central Bank, that that was the last ELA that would be provided to Irish banks unless Ireland went into a bailout programme?

Mr. Jean-Claude Trichet: Sir, you have the letter. You know the position of the Governing Council through the letter. That's a simple-----

Deputy Kieran O'Donnell: You would provide no further ELA funding unless Ireland went into a bailout.

Mr. Jean-Claude Trichet: The letter is there. It was returned in order to avoid any ambiguity. There is not any ambiguity thanks to the letter. You see exactly what the letter is saying but I didn't ask anybody to speak publicly on such matters. And by the way, the letter as you know, was considered totally confidential by both Brian and I. All the exchanges of letters was totally confidential.

Deputy Kieran O'Donnell: If Ireland had not gone into a bailout programme, what would have been the consequences, Mr. Trichet, for both Ireland and Europe?

Mr. Jean-Claude Trichet: You know better than I. You are an Irish citizen. You can judge by yourself whether the measure of adjustments which have been taken and which drove to a level of creditworthiness which is remarkable, as I already said; level of competitiveness, which has considerably improved in comparison with the level that you had at the moment of the crisis; and growth which is growing now clearly and so forth. So I mean it goes without saying that the Government of Ireland took a good decision. And, you know, we could also have continued on our side after having gone up to 100% of the GDP go to 200% of the GDP, and why not 300% of the GDP? Then what would be the Commission inquiry asking for? You would say, "Were you totally crazy at the ECB to continue, when we were going in the wall at 100 mph, to continue to provide liquidity and liquidity and liquidity?" And you would be right to say that.

Deputy Kieran O'Donnell: One final question, Mr. Trichet. If on the night of the guarantee, the Irish Government and the Irish authorities had contacted the ECB and looked for approval to provide ELA funding, emergency liquidity assistance to Anglo Irish and Irish Nationwide Building Society for a period of a week, would ... what view would the ECB have taken in terms of nationalising those banks or an orderly wind-down of those banks, which have cost the taxpayer over €34 billion, certainly in respect of Anglo?

Mr. Jean-Claude Trichet: Could you repeat? In which circumstances are you placing yourself?

Deputy Kieran O'Donnell: You are saying that you were never contacted by the Irish Government or by the Irish Central Bank prior to the guarantee being put into place.

Mr. Jean-Claude Trichet: To the guarantee?

Deputy Kieran O'Donnell: Correct. If you had been contacted prior to the guarantee, what view would you have taken in terms of assisting Ireland as a country in terms of a banking crisis?

Mr. Jean-Claude Trichet: We never hesitated to assist Ireland as a country. We did much more than any other Central Bank did for any country in the world. First remark and am strong on that because these are facts. Second, I would probably have said this is a new concept of extreme importance. You should discuss that immediately with the other governments of the euro area, because the impact on all the euro area of the guarantee was considerable. I had a number of governments calling me and saying: "What can we do? Ireland just gave a guarantee to its banks." So I would have said this is absolutely a, I would say, new concept. You are introducing a new concept. Discuss it immediately in the Eurogroup or even in the European Council, because all the decisions at the time were going up to the Heads of State and Government.

Deputy Kieran O'Donnell: But you would have been open to such an approach. You would have been open, you would have been receptive to such an approach from the Irish Government.

Mr. Brendan Halligan: We've gone now, I'm afraid, 11 minutes.

Mr. Jean-Claude Trichet: If I may. As you know, we were not in favour of this guarantee. We are on record in writing. I urge you to look at the writings, instead of looking at somebody said this and that because-----

Mr. Brendan Halligan: Thank you. Senator Marc MacSharry, please.

Senator Marc MacSharry: Thank you very much, Mr. Trichet. You are welcome. You said in your opening statement ... you spoke particularly to do with the burning of bondholders, the treatment of senior debt, that this option was extremely risky for Ireland, in your own words. You also spoke of the terribly agitated sea in which Ireland was but one boat. Against this background, presumably with the euro tying all the bolts together, did you tell Brian Lenihan either in personal phone calls, at ECOFIN meetings or in any other way, not to burn bondholders?

Mr. Jean-Claude Trichet: My relationship with Brian, written and clear enough. The burning of any kind of such senior bonds was, as I said already, in the time of Brian considered by consensus as an extraordinarily bad move.

Senator Marc MacSharry: So at no time, is it fair to say, "yes" or "no", that Mr. Lenihan exercised the preference to burn bondholders?

Mr. Jean-Claude Trichet: You mean envisaged to do that?

Senator Marc MacSharry: Did Mr. Lenihan ever express the view that the Irish Government intended and wished to burn the bondholders?

Mr. Jean-Claude Trichet: Again, I have the very clear memory of what happened afterwards with the new Minister, and I have been already, I would say, very clear on that. With Brian, it seems to me that there is an overwhelming sentiment that it would be a very bad idea, and I have no memory of Brian envisaging to do that.

Senator Marc MacSharry: You have no memory of him saying that they would like ... that the Irish Government would like to burn bondholders? Is that the case?

Mr. Jean-Claude Trichet: I have the memory of his successor saying that, not him. I have no memory of him.

Senator Marc MacSharry: But not him. Can I ask, is it a matter of fact or not, that the decision not to burn bondholders was one that had a fiscal cost on the Irish people of €4 billion? Would you agree or not with that statement?

Mr. Jean-Claude Trichet: Certainly not. I think that had this decision taken, the cost for Ireland would have been considerably higher because it would have destroyed the creditworthiness of Ireland. By the way, at the time, do you know another country which embarked on such a move? It is a question I ask.

Senator Marc MacSharry: This is an opinion, of course, that was-----

Mr. Jean-Claude Trichet: By the way, at the time, do you know another country which embarked in such a move?

Senator Marc MacSharry: Sorry, can you repeat that?

Mr. Jean-Claude Trichet: By the way, do you know at the same time another country doing that in the rest of the world, in the rest of Europe or the rest of the world at the time? It's a question that I ask.

Senator Marc MacSharry: Like you were considering all 15 votes, I am only interested in the buoyancy of one, as you will appreciate.

Mr. Jean-Claude Trichet: There are the 15 votes, and all the other votes that are not in the euro area, and are in the rest of the world ... in the advanced economies. But it's important for you to have an idea of what's going on anywhere.

Senator Marc MacSharry: You mentioned that ... you mentioned that ... in your statement ... that you provided advice only, in the context of the issue of senior votes. Can I ask, did that advice manifest itself at any time in the form of letters, as the advice provided in that of 19 November?

Mr. Jean-Claude Trichet: No, I don't think there has been any letter.

Senator Marc MacSharry: So there is no correspondence between the ECB and the Irish Government in the context of burning bondholders.

Mr. Jean-Claude Trichet: Not to my knowledge.

Senator Marc MacSharry: In 2010? Or '11?

Mr. Jean-Claude Trichet: Not to my knowledge.

Senator Marc MacSharry: Not to your knowledge. Would you think-----

Mr. Jean-Claude Trichet: But again ... the positions are very clear so I don't see exactly what is the, you know, problem. I made candidly, a role analysis ... the analysis of the Governing Council of the ECB, it's very clear-----

Senator Marc MacSharry: Were there telephone ... were there telephone in context, providing advice, similar in tone to that provided in the letter of 19 November?.

Mr. Jean-Claude Trichet: I mean, when we have a position of the Governing Council, I don't hide it. So, it's pretty possible that ... not by telephone ... Brian ... I was seeing Brian, in any case, every month and perhaps even more frequently because we had more of ... more discussion, in the Eurogroup, everywhere, in other meetings. So, discussion with Brian had been very numerous, and very, as I've already said, confident and friendly in circumstances that were totally dramatic for all reasons-----

Senator Marc MacSharry: Very difficult, yes.

Mr. Jean-Claude Trichet: -----for him and for me, and he had two reasons to be in a really dramatic situation himself.

Senator Marc MacSharry: I understand. Can you say, with absolute certainty, that Brian Lenihan or the Irish Government, never saw it, to burn the bondholders?

Mr. Jean-Claude Trichet: Did I say that? Did I say-----

Senator Marc MacSharry: No, I'm asking you. I'm asking you, can you say, with absolutely certainty, that the Irish Government of the day, where Brian Lenihan was the Minister for Finance, did not seek to burn the bondholders? This is what you implied because you said you remembered Minister Noonan, the next Minister-----

Mr. Jean-Claude Trichet: Yes. Yes.

Senator Marc MacSharry: -----seeking to do it. Would you-----

Mr. Jean-Claude Trichet: Yes, I mean Brian can-----

Senator Marc MacSharry: Would you agree-----

Mr. Jean-Claude Trichet: Brian was a friend. Brian was a friend with whom I had discussion on, you know, a hundred of other issues than that one. I cannot ... I cannot be ... I would say the ... I cannot have the knowledge of all of what he thought at any moment in time. So it's-----

Senator Marc MacSharry: So it is possible in your view, or impossible?

Mr. Jean-Claude Trichet: We should ... I mean, we cannot ask him the question.

Senator Marc MacSharry: We cannot ask him. But is it possible or impossible that there was ... was there ever an ECOFIN meeting, for example, where Minister Lenihan or his officials stated Ireland would like to burn the bondholders?

Mr. Jean-Claude Trichet: Again, I have the very clear memory of the new Minister ... position the debate in Ireland for the first ... again, this is minuscule in comparison with a legal guarantee which was given by the very same Government-----

Senator Marc MacSharry: In the-----

Mr. Jean-Claude Trichet: -----again. And Brian has also the right to think something and then to say, well, after all it's not a good thing to do. I mean, it's up to ... up to him.

Senator Marc MacSharry: I'm almost there, thank you. The ECB representatives at the troika negotiations or the bailout negotiations ... is it possible that they overruled attempts or approaches by Brian Lenihan or his officials in seeking to burn the bondholders?

Mr. Jean-Claude Trichet: The Government of Ireland is responsible for all its decisions.

Senator Marc MacSharry: Okay, of course-----

Mr. Jean-Claude Trichet: And the-----

Senator Marc MacSharry: Is it ... Would that be a yes or a no?

Mr. Jean-Claude Trichet: No, no, no, I'm sorry. I'm sorry, I don't respond by yes or no. I would tell you only that the Government of Ireland takes the decision. Full stop. The troika is there because they have to present the case then, either to the IMF or to the European Council, or say to the-----

Senator Marc MacSharry: Would the negotiators-----

Mr. Jean-Claude Trichet: -----Eurogroup.

Senator Marc MacSharry: Would the negotiators-----

Mr. Jean-Claude Trichet: And the Eurogroup decide whether or not to help ... whether or not to lend. That's the way it operates.

Senator Marc MacSharry: I appreciate that. Very finally-----

Mr. Brendan Halligan: Thank you very much. I want to move to the final questioner-----

Senator Marc MacSharry: Well other people have been 11 minutes, Chairman, if you wouldn't mind, I'm at eight minutes twenty seconds-----

Mr. Brendan Halligan: And I'm going to eat into your time.

Senator Marc MacSharry: I'm just finishing up if that would be okay. And we are timing it here. This is important. Would the officials negotiating for the ECB have had a mandate to tell the Irish negotiators, you cannot burn bondholders?

Mr. Jean-Claude Trichet: I have already tell ... You are referring to '10 or '11?

Senator Marc MacSharry: '10.

Mr. Jean-Claude Trichet: '10. Overwhelming consensus ... certainly overwhelming consensus in the ECB. So, no particular instruction. It went without saying. It was considered that it would be a very bad move, and I'm saying that for the tenth time. And that being said, the Government of Ireland could take any decision it wanted to take, and it could've said, "No, finally, I don't want the loans coming from Europe, or I don't want the loans coming from the IMF, or I don't want ... this and that." I mean, let's not forget ... and until now, the Government of Ireland took always full responsibility for what it has been doing, and that is why Ireland signature is as good as it is. And you have other examples which are exactly the reverse and you could see also the consequences on the quality of the signature.

Mr. Brendan Halligan: Deputy Lynch.

Deputy Ciarán Lynch: Thank you very much, Mr. Chairperson. If I could maybe just wrap up one question, just to conclude where we are at in the moment, and maybe just revisit some issues for a very, very brief moment as well. Just following on from Senator MacSharry's questioning, Mr. Trichet, I would like ... or invite you to comment upon a statement from former European Commissioner, Mr. Ray MacSharry, which appears on page 111 of the book, *Brian Lenihan: In Calm and Crisis*, published last year, and a section in that books says:

> One morning I got a call about a quarter past eight and it was Brian, he told me that he was able to burn the bondholders and he was very happy because E.C.B. President Jean-Claude Trichet had told him he could do it. This would have improved Ireland's position significantly and it was going to be a big story, but later that day a now despondent Brian rang me back. He said Trichet had changed his mind because he realised that the main casualty if the bondholders were burnt would be big German and French banks.

Would you care to comment on that?

Mr. Jean-Claude Trichet: I will comment. It is totally absurd. Totally absurd. First of all it's absurd for me to say, "Yes, you burn the bonds," when nobody in the world was burning the bonds. Absolutely nobody. And it's absolutely obvious you can go to all what was done, everywhere in the world. So the idea that I was in favour and not in favour for reasons that are an absolute disgrace, I would say absurd. Full stop.

Deputy Ciarán Lynch: In your earlier comment, Mr. Trichet, you mentioned that there were concerns with regard to the solvency of the Irish banks in your final letter to Mr. Lenihan, then finance Minister. Which banks had you solvency concerns about? Was it all of them or specific banks?

Mr. Jean-Claude Trichet: Our problem again, was with that we had refinanced all the Irish banks for 85% of GDP at that time. And we had a general problem of banks' solvency, which was very easily expendable. The solvency of Ireland itself was at stake and that the global level, the correlation between the solvency of the state and the solvency of the banks was about 100%. And, not surprisingly, because all the states had said, more or less publicly, we are backing our banks. So we had a problem of solvency of the banks, which was coming from the problem of solvency also of the country.

Deputy Ciarán Lynch: So just to clarify, again, this afternoon, it was the entire banking sector in Ireland, it wasn't individual banks-----

Mr. Jean-Claude Trichet: I would say ... I would say yes. Of course, you had banks that were more, I would say, in a better situation than others, that goes without saying, but the problem we had was an overwhelming problem of credibility ... creditworthiness of the country.

Deputy Ciarán Lynch: I just want to bring you back to an earlier engagement you had with Senator Barrett this afternoon, at which time you introduced some conversations you had with Ben Bernanke. And I'm not too sure what the context was actually about, but if I can maybe ask you or invite you to discuss or to explore with us any conversations you had with Mr. Ben Bernanke that related to the Irish financial crisis and any suggestions, recommendations or ideas that Mr. Bernanke might have shared with you, in regard to what should happen in Ireland.

Mr. Jean-Claude Trichet: In Ireland?

Deputy Ciarán Lynch: No?

Mr. Jean-Claude Trichet: No, nothing.

Deputy Ciarán Lynch: Okay, thank you very much. With that said, Mr. Trichet, I just want to thank you for your engagement with the committee this afternoon. I'd like to thank Mr. Brendan Halligan and the Institute of International and European Affairs for facilitating this event this evening and I particularly would like to thank the committee members for their engagement as well to make this happen along with the secretariat. The purposes of this event were at all times to provide the inquiry with an engagement that would be evidential, that would be admissible in terms of our final report when we do so in November and would be admissible information and evidence as well with regard to future witnesses that may come before the inquiry in the coming period, and in that regard I would like to thank all parties concerned for assisting and facilitating the co-operation and their co-operation for getting this event put in place today and especially to Mr. Halligan and his institute. So, thank you.

Mr. Brendan Halligan: Well, thank you very much, Deputy, for your very kind remarks. It has been a unique event, it called for a certain degree of creativity and co-operation and I want to thank all of those who were involved in that process. I hope that the committee will regard it as having been of assistance to it and its work and I'm sure that it will be regarded positively by the general public, many of whom who would have been able to see this transmitted live on TV. Again, I thank you for your attendance and for your adherence to the modalities which had been agreed. I would also thank your own staff, committee staff, who have been highly professional at all times, and it was a pleasure, indeed, to work with you. You can take it that I would also want to thank the two respondents, Dr. Somers and Professor Barrett for their contributions and it would be remiss of all of us if we did not thank the staff of the institute who have laboured heroically over the past month to make this happen. I think it is customary for a politician, even a former politician, to thank the owners of the hall for the use of the premises, which I now do, so I thank the Irish State for the use of the hall and thank the security forces and so on for ensuring that the thing went as smoothly as it did. But most particularly, I want to thank you, sir, for your presence here - I know you've had a very long day, you were up early this morning to get a flight which landed in here just after 11 o'clock. You still have some duties ahead of you. You're showing remarkable resilience and stamina and I want to thank you for all of that and most particularly for your disposition in dealing with the questions that were put to you, both by behalf of the members and also the members of the committee. So thank you very much being here and may I just maybe perhaps try to entice you to come back on some future occasion by giving you this history of Dublin, a city you have begun to express an interest in and its history. This is a 1,000-years-old city, as old as Paris, as you know and of course much more distinguished in terms of intellectual life and architecture.

Mr. Jean-Claude Trichet: No doubt.

Mr. Brendan Halligan: So perhaps you will visit us again at some future occasion. Thank you so much for being with us.

Mr. Jean-Claude Trichet: Thank you very very much.

Mr. Brendan Halligan: Okay.

END.