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Mr Max Watson
Address Not Disclosed

Dear Mr Watson,

I am writing to you to thank you for agreeing to participate in the preliminary investigation being undertaken into the crisis in the banking system in Ireland, and to confirm your appointment in this capacity.

As I have already indicated in my letter to Mr Klaus Regling, the Government considers it essential to thoroughly examine how events in the banking sector, the regulatory system and the wider Government sphere of responsibility contributed to the crisis, in order to arrive at a fuller understanding of the root causes of the systemic failures that led to the need for extraordinary support from the State to the domestic banking system.

The Government has agreed a detailed framework for such an investigation into the banking system. The investigation will have two stages. The first stage of the investigation will consist of the preparation of two separate preliminary reports; one to be prepared by you and Mr Regling and a second report which has been commissioned from Professor Patrick Honohan, the Governor of the Central Bank and Financial Services Authority of Ireland. These reports will provide a basis for the Government and the Oireachtas (Parliament) to prepare the terms of reference for the second stage, which will involve the establishment of a statutory Commission of Investigation, pursuant to the Commissions of Investigation Act 2004. It is anticipated that the Commission will be established by 30 June 2010 and report before the end of 2010.

Context for the report

At the broadest level, the causes of the difficulties in the banking sector in Ireland are similar to difficulties that have been experienced in the banking and wider financial sectors internationally. The Government is therefore of the view that the preliminary report should consider the international economic and financial environment, and indeed any broader social developments, which provided the context for the recent crisis in the banking sector and that it should have regard as appropriate to existing reports on the banking system, such as the de Larosière and Turner Reports. However,

you will understand that a central element of the report is to identify factors specifically pertaining to the Irish banking system which exacerbated the impact of the international financial crisis for Ireland.

Scope of your report

As I have indicated to Mr Regling, your report should highlight the areas in relation to the conduct, management and corporate governance of individual institutions that you consider necessary for subsequent investigation by the statutory Commission of Investigation.

The Government has decided that the investigation should cover the period up to the end of September 2008, at which point the Government announced its intention to introduce a guarantee of all liabilities of certain institutions. The Government has not specified a date for the beginning of the period to be investigated. However, it is clear from existing analysis that the root causes of the systemic failures within the sector that led to the need for extraordinary support from the State in September 2008 have their origins in decisions that were taken at institutional, regulatory and Government levels over a period of time and it will be open to you and Mr Regling to consider what is the relevant timeframe.

Practical arrangements

The Government has decided that both preliminary reports should be submitted to me not later than the end of May this year. My officials will discuss with you and Mr Regling whether they can be of assistance to you, in terms of the approach for preparation of the report, and how you might engage with key individuals. I might note that the report is to be prepared with a view to its publication in full and its laying before the Oireachtas following its consideration by Government.

I should also bring to your attention that a discussion with the relevant Oireachtas Committee will be required so that you may set out to the Committee how you propose to prepare your report and that you may also be briefed on the Oireachtas' own priorities for this investigation. My officials will be in contact with you separately in relation to the arrangements for this meeting. It may also be anticipated that your appearance before the relevant committee may also be required when the report is completed.

As regards the work of the statutory Commission of Investigation, you might note that the Government envisages that the terms of reference and draft Government Order to establish the Commission will be laid before the Houses of the Oireachtas in June and the report of the Commission of Investigation will, when completed, be laid before the Oireachtas for further consideration and action.

My Department will provide further information to you on the arrangements that will apply in respect of your fees and expenses. My Department will also be making a member of its staff available to you as a point of contact for your work and to assist in the practical arrangements over the duration of your work. It has been agreed with Mr Regling that this official would not have any role in the preparation of your report.

Finally, on behalf of the Government, I would like once again to express my appreciation for your agreement to the preparation of this report. The Government

considers it a matter of the utmost national importance, in light of the importance of repairing the damage to the international reputation of Ireland's banking system, that an authoritative and substantive report is prepared at this juncture on the causes of the severe banking crisis in Ireland. The experience and expertise that you will bring to this role will be an important contribution towards the preparation of a report which will provide reassurance to the Irish public and the broader international economic and financial community on Ireland's commitment to establishing the causes of our recent serious difficulties with a view to learning the lessons required to ensure that our banking system is restored to health to underpin the recovery of the economy and its future development remains fully consistent with the maintenance of economic and financial stability.

Yours sincerely

Brian Lenihan T.D.
Minister for Finance