Credit Where Credit is Due

Fine Gael's Banking Strategy

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Credit Where Credit is Due

Financing Economic Recovery by Restoring Trust in Irish Banking

Banking is built on trust. But reckless lending by Irish banks during the property boom, encouraged by an irresponsible Government that put its election prospects over the stability of the Irish economy, means that Irish banks have lost the trust of depositors, investors and society at large.

And the response of the banks and the Government to the crisis has made matters worse, not better. Committing €100 billion of taxpayers' money to the banks so that they can repay their foreign debts while starving the Irish economy of credit has made the recession far worse.

Its legacy is a completely dysfunctional banking system that is dependent on the European and Irish Central Banks for short-term funding, that is starving enterprise of the credit needed to finance economic recovery and that is undermining international confidence in the country's public finances.

According to the Central Bank, lending to businesses in December 2010 was down 1.2% compared with December 2009. Loans of more than five years to firms showed the biggest drop. The continuing credit crunch was confirmed by ECB survey evidence showing that lending conditions to business continued to deteriorate throughout 2010.

A key challenge for a Fine Gael Government will be to make our banking system an engine of economic recovery by restoring public and market confidence in its financial health, management competence and ethical integrity.

Section 1 Introduction

1.1 The Government's Banking Policies are at the Core of Ireland's Problems

The current IMF-EU bail-out plan has not – and will not – restore confidence in Ireland, because at its heart is a commitment to continue the failed banking policies of the present Government.

At the core of the loss of domestic and international confidence in Ireland's economy has been the Government's reckless commitment of over €100 billion of State resources to bank bail-outs (€60 billion in recapitalisation; at least €40 billion in asset purchases by NAMA). This is three times the national debt before the crisis.

The Government's mantra that bailing out reckless banks and their investors was necessary to protect Ireland's credit rating has proved a catastrophic misjudgement.

If it were not for the historical and potential future losses for Irish taxpayers from the Government's banking policy, Ireland's public finance problems would be judged by the financial markets as being difficult but entirely manageable. There would have been no need for an EU / IMF bail-out.

1.2 The IMF Would Not Be Here if Government had Followed Fine Gael's Approach

Taking onto the State's shoulders the responsibility of recovering the banks' debts, either through NAMA or by nationalising the entire banking system as proposed by Labour, were not the solutions.

While failing to restore credit flows, it has raised doubts about the solvency of the State itself, and forced much harsher tax increases and spending cuts than would otherwise have been necessary, making the recession even worse.

Fine Gael would have handled things very differently. Almost two years ago, we set out an alternative banking policy that would have used the period of stability provided by the Guarantee to restructure the banks and, where appropriate, impose losses on the banks' investors and bondholders.

Right from the start, Fine Gael was the first party to recognise that Anglo Irish Bank needed to be wound down. Fine Gael was the first party to argue that it was unfair for the Irish people to shoulder all of the losses of our banks, and that it was right that investors who had lent recklessly to the banks should also share in the pain.

Section 2 Renegotiating the Programme of Support to Achieve a Fairer Sharing of the Cost of Restructuring Irish Banks

The Government's "blank cheques" banking policy must now be ended. Too much money and time have already been wasted. We must step back from the edge of national insolvency.

Borrowing up to €25 billion in additional funds from the EU / IMF at 5.8% to cover additional bank losses from fire-sales of loans and other bank assets to UK hedge funds at rock-bottom prices, as this Government has agreed, is not a credible policy.

It could push Irish Government debt towards unsustainable levels and hinder economic recovery, threatening the stability of the entire euro area. That is partly why the IMF-EU deal has not restored confidence among financial markets in Ireland.

We will seek a mandate from the Irish people to renegotiate a more credible, fairer package that is better for Ireland and Europe. There are a number of options.

2.1 European Support for Bank Recapitalisation

The terms of reference of the European Financial Stability Fund (EFSF) and / or European Financial Stability Mechanism (EFSM) should be renegotiated to allow them to take equity and long-term debt investments in systemically important European banks, such as AIB and Bank of Ireland.

If other European countries continue to set their face against default on reckless loans made by banks in their own jurisdictions to Irish banks, then they should follow through with direct contributions to their recapitalisation.

A similar option is that Ireland could buy "insurance" from the EU against the risk (small as it is) that losses in Irish banks will be significantly greater than currently projected by our regulatory authorities.

Either of these options would be appropriate for Bank of Ireland and AIB, and would cap the Irish State's exposure to further losses or so-called "tail risks" in our banking system, helping to restore confidence in the State's own financial health.

2.2 Agreed Procedures for Restructuring the Debts of Troubled Banks

An alternative is that that Europe quickly put in place agreed, harmonised procedures to restructure the debts of banks that have become insolvent. Irish and other European taxpayers can no longer be expected to carry the can for reckless lending between Irish and other European banks. It is a basic rule of capitalism that if you lend recklessly, you must take the consequences.

Fine Gael in Government is committed to forcing certain classes of bond-holders share in the cost of recapitalising troubled financial institutions. This can be done unilaterally for the most junior bondholders (owners of preference shares, sub-ordinated debt and similar instruments), but should be extended – ideally as part of a European-wide framework – for senior debt for institutions like Anglo Irish and Irish Nationwide that no longer have any systemic economic importance.

Fears about the implications of bank debt restructuring for financial instability are over-cooked. A large proportion of the €25 billion in unsecured junior and senior Irish bank debts have already been sold on – at significant haircuts – to private clients and hedge funds in London and elsewhere, which hope the Irish State can be pressed into honouring these bank debts in full.

2.3 A More Sustainable Funding Solution for Irish Banks

Irish banks need to shrink their balance sheets to reduce their dependence on volatile non-deposit funding sources. We also need to reduce our dependence as a State on short-term ECB funding for our banking system. Unless we can diversify the sources of funding for our financial system, it will be difficult for the Irish State to re-gain access to the private bond markets.

With this aim in mind, we will seek to collaborate with U.S. regulatory authorities to collate the dollar assets of Irish banks (up to $50 billion) that could be used as security to secure funding from the U.S. Federal Reserve.

Rather than selling assets at fire-sale prices with the losses covered by already over-stretched Irish taxpayers, we will negotiate with the EU/ECB to fund – on a longer-term basis – the transfer at par value of relatively-secure Irish bank loan books – such as tracker mortgages – into a "warehouse" or Special Purpose Vehicle. This might involve the EU funds buying long-term bonds to fund such entities.

This would shrink the Irish banks to a size where they can fund most of their remaining loan books through deposits, helping to address market concerns about their long-term liquidity position.

2.4 A New Irish Government Re-Negotiating at the Highest Level

These options are not just a matter of technical negotiations between Irish and other EU officials, or even for EU Finance Ministers. They require political commitment at the highest EU levels to resolve the crisis that is now engulfing Europe with a new sense of solidarity and underpinned by a new policy framework. They require a new Irish Government that is not seeking to vindicate the failed policies of the past.

Should some credible, combination of these options prove not be available from Europe, the next Irish Government would – in order to restore its own credit worthiness – be left with little choice but to unilaterally restructure of the private debts of those Irish banks in greatest need of recapitalisation.

It is neither morally right nor economically sustainable for taxpayers to be asked to beggar themselves to make massive profits for speculators.

Section 3 Re-Building a Competitive, Functioning, Well-Managed, Privately-Owned Banking System

Re-creating – out of the carnage of recent financial mismanagement - a well regulated, competitive, prudently-managed, privately-owned and profitable banking system will be a key aim of a Fine Gael Government.

3.1 Putting the Government Back in Charge of Restructuring the Banking Sector:

Ever since the Government's NAMA plan failed, nobody seems to be in charge of resolving the Irish banking crisis. The Department of Finance, the NTMA, the Central Bank and the banks themselves are frequently at cross-purposes about the right direction to now take.

We will establish – and staff with the necessary expertise – a new banking policy division in the Department of Finance to manage, from one central point, the efforts of the Central Bank, the NTMA and the banks' management themselves to repair the Irish banking system.

3.2 Promoting New Leadership and Management in the Banks

Irish banks need new leadership and management to restore the trust of both the public and the markets. But almost 40% of the directors of the Irish banks that were rescued in September 2008, as well as most of the top layers of management, remain in place. To date, not a single bank rescued by the Irish taxpayer has published any findings identifying what went wrong with their internal controls and those responsible.

A Fine Gael Government will accelerate the replacement of directors and senior managers in the Irish banks.

To expedite this change-over we will openly construct a pool of globally experienced financial services managers and directors to be inserted into key executive and non-executive positions in banks receiving taxpayer support.

3.3 Banks Should Squeeze Their Costs before Their Customers

Unlike the public service and a high proportion of the private sector, the banks that created this economic crisis have not yet sufficiently cut their own wage bill and cost base. While public service salaries have been cut by an average of 14% since 2008, base salaries in the banking sector have actually increased by 3% since 2008. That is partly why the cost-income ratios of AIB and Bank of Ireland are still out of line with comparable European banks.

A Fine Gael Government will direct any mortgage provider in receipt of State support to present it with a plan within 100 days of coming into office of how it intends to cut its wage bill and other costs – over and above existing plans – in a fair manner by a sufficient amount to forego a 25 basis point increase on their variable rate mortgages. Across the covered institutions, this would amount to further cost reductions of around €100 million, equivalent to about 7% of banks' combined pay bills.

This plan should include a new, lower pay cap for senior staff and a verifiable commitment to suspend all bonus payments until the banks are no longer in receipt of State support.

3.4 Returning Viable Banks to Private Ownership

Now that most of the Irish banking system has been nationalised, Ireland should not invest additional scarce, taxpayer resources in new state-owned banks, leading to even greater cuts in funding for education, transport and health.

Indeed, returning the banks to private ownership as quickly as possible, and using the proceeds to reduce Ireland's debts and to finance new investment, will be important an important signal that Ireland has turned the corner towards strong recovery.

Fine Gael will complete the sale of EBS to a new, private owner, and will support the new institution as a lynchpin for building a third force in Irish banking to compete against AIB and Bank of Ireland in the business and personal banking markets.

We will consider selling AIB to a large, foreign bank in order to bring access to new funding and capital for Irish enterprises, and to address market concerns about the threat to the national finances from the banking system. We will seek to retain Bank of Ireland under domestic ownership and control, and will consider giving individual Irish citizens an option to buy the State's shares at a price that, at the very least, recovers the investment made by taxpayers.

3.5 Shutting Down Dead Banks

Anglo Irish Bank and Irish Nationwide have no further role to play in the Irish economy. A Fine Gael Government will wind up both institutions by the end of 2011, by transferring their remaining assets and deposits to NAMA, other financial institutions or other asset recovery vehicles as appropriate. Further losses incurred in this process will be shared with remaining unsecured bondholders.

3.6 A Healthy Credit Union Movement

Fine Gael recognises the important role of credit unions as a volunteer co-operate movement and the distinction between them and other types of financial institutions. In Government, we will establish a Commission to review the future of the credit union movement and make recommendations in relation to the most effective regulatory structure for Credit Unions, taking into account their not-for-profit mandate, their volunteer ethos and community focus, while paying due regard to the need to fully protect depositors savings and financial stability.

3.7 Supporting New Mortgage Lending to First Time Buyers

The housing market will not be re-activated unless First Time Buyers have access to high loan-to-value mortgage credit to enter the market.

Working with the regulatory authorities and the industry, a Fine Gael Government will encourage new funding for Irish mortgage lending again by creating a new brand or status around the Irish mortgage market that puts the quality of Irish mortgages beyond any question in international markets.

With this aim in mind, and drawing from best international practice, we will introduce new universal Mortgage Indemnity Insurance ('negative equity insurance') that provides adequate security for prudent lenders and borrowers against future risks of negative equity.

In the event that a family is forced the sell their home due to adverse economic circumstances, any difference between the loan value and the sale proceeds is paid for by the insurance scheme. This means that families with mortgages covered by such insurance will no longer be left to shoulder the burden of negative equity. Such a scheme will encourage more prudent lending practices by banks. Together with tighter regulation of lenders, it will help draw a line under past practices and strengthen confidence in, and funding for, the Irish mortgage market. It may also allow the regulator to ease the capital that must be held by banks against new mortgage lending, thereby easing the credit crunch for Irish banks.

The insurance will be paid for by the bank and will be compulsory for all new borrowers with a loan-to-value ratio in excess of certain levels that will be decided in consultation with the regulator and the industry. The insurance will be privately provided but tightly regulated to ensure transparency and accountability.

The experience of other countries – such as Canada – is that mortgage insurance against negative equity helps to stabilise the boom bust cycle in housing markets, and facilitates prudent lending to First Time Buyers at affordable interest rates.

3.8 *A Partial Business Loan Guarantee to Support Job Creation*

Despite promises of a 'wall of cash' by the Minister for Finance, NAMA has failed to restore adequate credit flows into the economy.

A Fine Gael Government will strengthen efforts to get credit to viable businesses. Most important will be the new negotiations with the EU and IMF to ensure adequate capital and funding for Irish banks at an affordable cost for customers and taxpayers.

But the problem is not just inadequate capital and funding for the banks; the banks have also forgotten how to assess credit applications from businesses whose repayment promises are underpinned by future cash-flow projections rather than property collateral. That is partly why they are shutting out viable businesses.

To get banks lending again to industry and entrepreneurs, a Fine Gael Government will implement a temporary, partial credit guarantee scheme that will provide a level of insurance to the banks against losses on qualifying loans to job-creating firms.

Successful schemes in other countries, such as Chile and Taiwan, have cost the taxpayer nothing while supporting recovery from a banking crisis by helping to build new, sustainable relationships between banks and solid businesses. Fine Gael will introduce a loan guarantee scheme for small and medium sized businesses based on the following operational principles:

- Risk-sharing between financial institutions and the State;
- Auctioning of loan guarantee contracts to financial institutions;
- An emphasis on micro and export-oriented companies; and
- And exclusion of institutions that approve high rates of non-performing loans.

3.9 *Micro Finance Start Up Fund*

Banks remain a poor source of financing for start-ups and early stage entrepreneurs, but the absence of sufficient equity and debt finance in this area could impede robust economic recovery.

Drawing from funding from the NPRF and private institutional funds, we will construct a €100 million Microfinance Start-Up Fund which will provide start-up loans and equity to new businesses. Private not-for-profit organisations like First Step, Chambers of Commerce or Local Business Units in the City and County Councils could apply for capital from the Fund for investment in local start-ups, as part of a necessary move away from non-repayable grants.

3.10 *Financing for High-Tech, High-Potential Firms*

Technology-intensive, export-led growth can be underpinned by ensuring that home-grown technology companies here have access to finance that more traditional lenders in Ireland have been reluctant to supply.

That is why Fine Gael – alongside the restructuring of the domestic banking system - will also support the development of a more dynamic, venture capital industry in Ireland by attracting top-tier venture financing and investment companies to Ireland, as recommended by the Report of the Innovation Taskforce.

Silicon Valley Bank, for example, provides unique, flexible financing solutions for some of the most entrepreneurial technology companies in the world. The new UK Coalition Government has persuaded it to establish offices in the UK, and a new Fine Gael Government will seek to entice it to establish offices in Ireland.

3.11 *Making Sure Banks Deliver on their Lending Promises*

We will direct the new Credit Review Office to publish a delivery audit of the commitments by AIB and Bank of Ireland to make available a total of €12 billion in additional lending to small and medium enterprises in 2010 and 2011.

Section 4 Supporting Families and Businesses in Debt Distress

Many individuals, sole traders and other small businesses face severe cash flow problems as a result of the recession and now have problems in managing their mortgages and other debts.

According to the Moody's Rating Agency, just over four in every 100 Irish mortgage holders – a total of 33,000 mortgages – are in arrears for more than three months. With mortgage interest rates expected to rise again next year, it is imperative that the Government help families in distress.

A Fine Gael Government will expect every family and every business to do everything they can to service their debts. Where, however, families and businesses have made best efforts and find themselves – either temporarily or permanently – unable to service their debts, we will support them through the recession and help re-integrate them back into the economy.

4.1 Helping Families in Mortgage Arrears by Capping Mortgage Interest Supplement Payments to Banks

A Fine Gael Government will support those families who were lured by banks and their political cheer-leaders into buying over-priced houses during the boom and now face negative equity and repayment difficulties.

We will ensure that budget-capped funding for the means-tested Mortgage Interest Supplement scheme can adequately cover the increasing number of families in need by capping the interest charged by lenders benefitting from this scheme at the ECB base rate plus 1%, or the contracted mortgage rate, whichever is lower.

To improve uniformity of access and speed of processing applications, we will centralise its administration under our proposed single Payments and Entitlements Service.

4.2 Increasing Mortgage Interest Debt Relief for the Negative Equity Generation

We will increase mortgage interest relief to 30% for First Time Buyers in 2004-08 (from the current sliding scale of 20% to 25% depending on the year the mortgage was taken out), financing in part by bringing forward the abolition of relief for new buyers from June 2011.

4.3 Banning Penalty Interest on Re-Structured Mortgages

We will legislate, if necessary, to stop mortgage lenders charging penalty interest rates (or forcing families to give up their low-cost tracker mortgage rates) on mortgages that have been rescheduled (i.e. the payment term lengthened) where the borrower has co-operated with the lender in agreeing a new, sustainable re-payment plan.

4.4 A Deferred Interest Scheme for Distressed Home-Owners

We will require banks in receipt of State support to give homeowners every chance to renegotiate the terms of their mortgage to avoid repossession during difficult times. For example, as recommended by the Mortgage Arrears and Personal Debt Group (November 2010), we will require all mortgage lenders to offer distressed home-owners a Deferred Interest Scheme (DIS) that enables borrowers who can pay at least 66% of their mortgage interest (but less than the full interest) to defer payment of the unpaid interest for up to five years.

4.5 Using Pension Savings to Ease Debt Distress

Many middle-aged home-owners and / or owners of small businesses have generally-funded personal pension schemes, but are facing difficulties in servicing mortgages or other current financial obligations. A Fine Gael Government will amend pensions legislation to allowing defined contribution pension savers to access funds early, subject to reasonable limits, to meet their current business and personal responsibilities (while taxing the draw-downs).

4.6 Trading Down and Negative Equity Mortgages

For some mortgage holders that are in negative equity, trading down would produce a reduction in mortgage debt and more affordable monthly payments. We will work with the Financial Regulator and the industry to facilitate trading down and "negative equity mortgages" by borrowers in this situation. Such options would have to be in the customers' best interest.

4.7 A New Insolvency Regime for the Financially Responsible

Bar the most extreme cases, bankruptcy reflects the failure of the system. Where common sense is applied to most debtors' circumstances, there is no need or point to making someone a bankrupt. The sale of non-essential assets should be a part of any arrangement made between a debtor and their creditors.

Once the ability to provide for creditors from the income of the debtor through a Debt Settlement Agreement is taken into account and the proceeds from the sale non-essential assets are distributed there should be no need to go any further in most cases.

But where this is not possible, Irish bankruptcy laws must be updated. They currently are unpractical, unused, excessively costly and overly penal.

A fairer bankruptcy regime – and confidence that business failure will not result in a life of indebtedness – is vital if we are to encourage more job creation by entrepreneurs. Survey evidence suggests that fear of bankruptcy is one of the most important reasons given by individuals for not starting their own business. And the "severity" of bankruptcy law, measured as the number of years a bankrupt must wait until they are discharged from pre-bankruptcy indebtedness, is the most important factor impacting the levels of self-employment across countries.

In Germany and the Netherlands, reforms of bankruptcy law resulted in a 9% and 8% increase in the average level of entrepreneurial activity respectively.

A Fine Gael Government will fast-track the reforms needed to bring us into line with best international standards, focusing on the following elements:

- Reducing the time to discharge from bankruptcy from six years to one for **"honest bankrupts",** defined as one that has materially complied with the Tax, NAMA and Companies Acts among others;

- **A Non-Judicial Debt Settlement System** that will change bankruptcy from a judicial to an administrative process, with filings being made with a new Debt Settlement Office within the Courts Service without the need for legal representation;

- **New Commercial Voluntary Arrangements** (CVAs), which are legally binding arrangements between the directors of a company and their creditors (at least 75%) that would protect the debtor from interest charges and the threat of enforcement during the period of the life of the CVA;

- **A Limited Residence and Personal Assets Safe Harbour** that will permit a bankrupt to ring fence from the bankruptcy process ownership of a principal private residence (within limits based on size, value and family numbers) and specified personal assets not to exceed €40,000 in value; and

- **A Prohibition against Discrimination against Discharged Bankrupts** to ensure that former bankrupts are treated fairly in their applications for credit or other services.

Section 5 Making NAMA a Credible Vehicle for Recovery

Fine Gael opposed the establishment of NAMA because we did not want to see taxpayers forced to buy the toxic developer debts of the banks and to make the State responsible for their collection. Neither did we believe that NAMA would unblock credit flows to business – a view vindicated by subsequent events – as banks have used taxpayer funds to pay down their own debts rather than lend into the economy.

We concluded NAMA was a bad idea for the economy and for the State, and in this view we were supported by strong international evidence.

In November 2008, the International Monetary Fund (IMF), the world's repository of expertise in financial crises, finished a study on banking and property busts in seven other countries where the NAMA approach was adopted, and concluded that "Government-owned asset management companies appear largely ineffective in resolving distressed assets, largely due to political and legal constraints".

In layman's terms, the IMF concluded that NAMA type bank rescues are often unsuccessful because state quangos are much less skilled than private bankers at recovering loans from rich, powerful and well-connected borrowers.

And if there is one thing the Irish public understand after 13 years of Fianna Fáil led Governments, it is that a close and secretive relationship between politicians, civil servants, bankers and developers is a recipe for disaster.

That is why a new Fine Gael Government will make a number of changes to the way NAMA works to help reduce taxpayer exposures and to kick-start the economy.

5.1 Stopping Further Asset Transfers to NAMA

We do not believe that transferring the land and development loans of Irish banks of less than €20 million to NAMA is in the best interests of the Irish economy, and will seek a mandate from the Irish people to renegotiate this element of the Programme of Support from the IMF and EU.

As an alternative, we will force Irish banks to take loss provisions against these loans similar to the haircuts that would have been applied by NAMA. This offers the advantage of forcing the banks to recognise their potential losses, as well as significant upside potential for new investors in Irish banks. It also provides a more manageable administrative system for loans of this relatively small scale.

5.2 Kick-Starting the Property Market

Getting the property market functioning properly again is a condition of strong economic recovery. This will require NAMA to dispose of property assets secured from developers in default of their loans into the private sector as quickly as possible. We are open to considering new types of investment vehicles – such as U.S. style Real Estate Investment Trusts ("REITs") – that can help overcome the lack of adequate bank credit and create a new, highly liquid investment market in Irish commercial property for Irish pension funds, small investors and the general public.

A REIT is a traded property stock that is taxed, not at the corporate level but at the investor level and pays most of its income in dividends that are taxable in the hands of shareholders. The concept of a REIT originated in the USA in 1960 with most major jurisdictions having introduced similar investment vehicles in the intervening period. The objective of introducing REITs into Ireland will be to:

- Introduce liquidity into a very illiquid property markets;
- Overcome the lack of bank credit by creating new channels for direct equity investment in the commercial property that must ultimately be disposed of by NAMA and its debtors if NAMA is to repay its debts to the banks without further recourse to the taxpayer;
- Provide a new investment opportunity for Irish pension funds currently invested overseas;
- Allow smaller investors to participate more fully in commercial property at very low transaction costs;
- Encourage financial stability and more efficient functioning of financial markets; and
- Provide a means – through a public listing – whereby pricing will give a day-to-day indication of valuation and performance.

5.3 Exposing NAMA to Public Scrutiny

A Fine Gael Government will strengthen the transparency of NAMA's operations and its management of the assets paid for by the taxpayer. The details of all non-performing loans acquired by NAMA will be available for scrutiny on a Public Register, including the names of the creditors, the price paid by the taxpayer for the loans and the actions taken by NAMA to recover the loans.

We will clarify the rules of engagement between NAMA and developers in default of the loans to the taxpayer. Persons that have defaulted on loans acquired by NAMA will be banned from subsequently ever purchasing any asset from NAMA.

5.4 Reintroducing Diversity and Competition into the Property Market

NAMA cannot be allowed to become a monopolistic barrier to competition, new activity and recovery in the property market. We will force NAMA to outsource management of at least 70% of its assets to 3-4 competing private asset management companies.

Section 6 Never Again Will Banks Be Allowed to Ransom the Irish State

Under Fianna Fáil, Ireland became the "wild west" of European finance. Under Fine Gael, Ireland will fight to regain its reputation as a centre of responsible finance and prudent, ethical banking.

6.1 Punishing Financial crimes

Fine Gael will ensure that rogue bankers are pursued for their crimes and that the full rigours of the law will apply to them, and the courts will have the powers necessary to impose appropriate fines and jail sentences.

We will enact a new consolidated and reformed anti-corruption law to punish white collar crime and end the impunity from consequences for corporate behaviour that has threatened the economy.

We will ensure that the Office of the Director of Corporate Enforcement has sufficient resources to tackle White Collar Crime

6.2 Stronger Regulation of Financial Institutions

We will strengthen the financial regulatory regime by funding the planned increase in staffing levels.

We will, before the end of 2011, commission an independent benchmarking of the quality of Ireland's reformed banking supervision regime as against best global practice.

We will strengthen bank directors' accountability, rules relating to bankers' pay, and corporate crime legislation.

6.2 Structural Reforms to Make Banking Safer

We will raise core equity capital requirements for systemically important banks on a permanent basis. This will provide a greater buffer against banking losses before external intervention is required.

To be counted as capital, "hybrid" debt instruments issued by Irish banks, such as sub-ordinated bonds, must include clear mechanisms for taking losses, either through write-downs or conversions into equity, without winding down the entire bank.

We will legislate, consistent with emerging EU frameworks in this area, to give the Financial Regulator additional "bank resolution powers" to take over and wind down banks that threaten financial stability, with losses being absorbed by investors and bond-holders before the taxpayer.

Fine Gael will consider new legislation to separate more risky, speculative financial activities from the traditional banking activities of taking deposits and lending to enterprise.

Fine Gael will also intervene directly to stop banks from encouraging risky lending in the way they pay senior executives.

As banks return to profitability and private ownership, we will target additional contributions from the sector to repay the Irish taxpayer for the cost of the bank bail-outs. Initially, these contributions will be in the form of dividends, but will over time be restructured into an additional bank levy on the types of transient funding sources of the Irish banks that have caused so much instability.

6.3 Preventing Conflicts of Interest in Banks and Professional Advisers

The same small network of professional advisers, accountants, lawyers, financial advisers or other consultants are linked NAMA, the NTMA, the bailed-out banks, the Central Bank and the Department of Finance.

This presents an obvious conflict of interest which undermines confidence in Ireland's public and private sector governance.

There are serious questions in particular about the failure of auditors to warn shareholders and stakeholders about the illusory profitability of banks during the boom years, in Ireland and internationally.

To give the Oireachtas and the public confidence that auditors are doing their job properly, a Fine Gael Government will mandate the Irish Auditing and Accounting Supervisory Authority (the independent regulator of the audit profession in Ireland) to publish their conclusions from their annual inspections of individual audit firms in respect of public interest entities.

To emphasise the primacy of shareholders, in particular over management, in the appointment of auditors to financial institutions in receipts of State support, that audit committee chairpersons be required to propose at each AGM the appointment of the auditor and to set out their reasons for doing so.

We will work with relevant regulatory authorities to make it a standard practice that auditors should answer questions to shareholders at the Annual General Meeting of public companies.

We will require the audit committee of Public Interest Entities to evaluate the effectiveness and competence of the auditor every three years and set out for shareholders how they have done so.

For systemically important institutions (e.g. the banks) we will legislate to give the Financial Regulator a right of veto over the audit committees choice as auditor.

We also commit to implementing other proposals that are finalised at EU level on strengthening the future role of auditors.