How the allegation of fiscal laxity by the IMF was dealt with by the Minister?

Your Commissioner Ross concerned about the strictures made by the IMF concerning the financial meltdown and that the delay in taking on the part of the Government compounded the problem and increased the cost of the FINSAC exercise. The issue is best understood by citing the contents of the letter put to the Minister at page 78 of the transcript,

> "The IMF in its letter of November 27, 1996 stated. "It has been our experience that no resolution strategy can be successful in restoring a financial system to soundness in the absence of a sound macroeconomic framework that is consistent with achieving a sustainable and low rate of inflation as well as external viability. Jamaica's policy mix of fiscal laxity, monetary restraint, and exchange rate stability is, in our view, not consistent with achieving such macroeconomic objectives".

The Minister stated that he was in agreement with the first sentence. But he disagreed with the concluding part put of the statement. His explanation forms a very important party of this Enquiry and it is necessary to cite the Minister response in full. It reads as follows at pages 89-90 of the transcript

> "I am in agreement with the first sentence of that assessment. It would be impossible to disagree with you that what it has outlined are a set of contradictory policy initiatives. I don't agree with the second part of the assessment. In fact, if you note the Government agreed, the then administration agreed with the first part. If you note several of the steps which were taken by the administration following the intervention of FINSAC. Jamaica for several years, I don't know what its present situation is now ranked, had one of the highest primary surpluses anywhere in the world; we were over 10%."

He continues thus at page 91 the transcript

> "A primary surplus, Commissioner, in simple terms is that you took revenue and if you took out the expenditure on debt servicing etcetera, then what it indicated is what you are willing, sacrifices you are willing to make in order to meet your obligations. In terms of monetary restraint, the very question you are asking about in terms of high interest rates, one approach towards monetary

> **restraint is high interest rates but the question is how high is acceptable, Commissioner Ross feels it was too high. In terms of exchange rate stability, that was one of the major achievements in terms of maintaining stability in the foreign exchange market. So I agree with the first part of the assertion but I do not believe the second part characterizes what was achieved in Jamaica."**

It may be that the 'fiscal laxity' of which the IMF was the significant borrowing which incurred to meet ordinary budgetary expenditure.

Be it noted that any evaluation of the Minister's policy must take into account the primacy given to maintaining stability in the foreign exchange market .

Counsel for the Minister Mr. Michael Hylton QC in examining the Minister at this stage said at page 91-92 of the transcript,

> **"Let me address an issue with the other question the Commissioner alluded to. This is a report in November 1996 of the IMF, IADB and IBRD. They estimated the size of the insolvency in Jamaican financial institutions at 20% of GDP and advised immediate action to rectify the situation, so this is 1996, before FINSAC. The same report says that your administration decided that this was not "politically possible", that is to say the immediate action recommended. This was not "politically possible", can you please explain what was meant by that statement?"**

Here is the response at pages 92-93 of the transcript,

> **"The first thing I would wish to say, well certainly, I can speak definitively for myself, I at no stage told the representatives of the multilateral that it was not politically possible and I am willing to assert, although obviously not with the same level of certainty, that no member of the administration did. One of the things which you have to learn from interaction with the multi-laterals, the multi-laterals speak about technical and economic and anything else is political. So what we did tell them that it was not socially possible but for the multi-laterals and I invite you to converse with them, socially conversed politically, so we told them it was not socially possible to do that which they said."**

The Minister stated that the letter was dated November 27, 1996 and FINSAC was established in January 1997. That still leaves the issue as to when the warning came from the Bank of Jamaica the Minister's stance was to delay action until the forensic auditors he appointed reported to him.

This issue will be dealt with fully by the Minister in the later stages by his evidence. We must bear in mind that Minister expressly stated that he originally trusted the Bankers called the Owners Club. The Minister rejected the estimate of the IMF, IDB and World Bank that if the issue of the meltdown had been dealt with promptly the exercise would have cost 20% of the GDP. The ultimate estimate of what the exercise cost was 40% of the GDP. Your commissioners are of the view that the cost would have been considerable less than 40% of the GDP if the findings and recommendations of the Bank of Jamaica were accepted as the basis action. However when he gave evidence at a later stage, he suggests that having regard to the nature of the inspection by BOJ he required greater certainty which could only be obtained by a forensic audit. The difficulty with this argument is that the Bank of Jamaica is the institution ordained by statute to do the inspection and when we examine the findings of the BOJ and the forensic audit it will be demonstrated that the forensic auditors concurred with the findings of the inspection of the Bank of Jamaica. So it seems this was a serious misjudgement on the part of the Minister on this aspect.

The Minister stated that the FINSAC model was tried in Mexico and that Ireland contemplated using such a model. The Minister stated that before FINSAC, FIS paid depositors 90% of their savings. Be it noted that FIS was responsible for the first causalities of the meltdown namely Blaise and Century.

QUESTIONS PUT TO THE MINISTER CONCERNING FINSAC

The Commissioners put a number of questions on the operations of FINSAC, and he declined to answer them on the basis that he appointed a Board and give general directions whose aims were transparency fairness and equity and he insisted that the Commissioners direct their questions to the appropriate officers of FINSAC. As to specific directions it is appropriate to cite the words of the Minister at page 108 of the transcript.

> **"There was one specific area. The Cabinet in discussion with the then Opposition made a special provision with regard to housing units, the residential units occupied by debtors which had been used to collateralize debts and a special window was provided in that regard. In fact even after the bad debt, even in instances where arrangements were completed, and the bad debts were sold to JIF, that arrangement continued for a particular period."**

The special window was designed to protect residences whose value was 5 million dollars. There was an issue as to why the debts held by FINSAC were sold and the Minister answered this at pages 110-111 of the transcript.

> **"Well, the first is with regard to – I think the Commissioner raised the issue of the lifetime of FINSAC and we recognize that that operation could go on for an extended period but more than that that FINSAC was never ever trained, the officers were not trained in sort of debt collection, so in order to allow FINSAC to get on with the other aspect of its mandate such as restructuring the entities for sale, that was one reason, to allow them to focus on things in which they had greater competence; to allow them to provide leadership in the revamping of the regulatory system in the line of international best practices. To in a sense allow the administration to achieve its objective of returning the financial sector to normality within the context of this tighter regulatory system. And, there was a reality that the FINSAC staff, Chairman and Commissioners were coming under a great deal of pressure from individual debtors and what was conveyed to us was that they had difficulty in working."**

An issue which was debated was why the FINSAC holdings was sold to Jamaica Redevelopment Foundation (JRF). Here are the answers given by the Minister at page 113 of the transcript

> **"It was advertised internationally and we had various persons expressing interest but once they did the due diligence many dropped out. There was one firm which had made a good offer which we wanted to conclude the negotiations with but unfortunately, whilst they were here there was a major incident in part of Kingston and the principal who was here, I met with him; pleaded with him -- it's very difficult to say to people it is so we behave. He said, "I just want to be out." And that was the end of that discussion. So we had many persons at the beginning saying they were interested. Some of the local entities wanted to**

establish a real estate trust but that was not what -- we wanted a total package."

The Minister continued thus on page s113-114 of the transcript

> **"After all is said and done, after all the expressions of interest when we checked out their credentials and their offer they were the best. And there was a clear thing; cash up front and then a certain percentage from collections over time."**

The Minister explained that Jamaica Redevelopment Foundation. was accorded an exemption from the Money Lending Act and he summarised the agreement between FINSAC and Jamaica Redevelopment Foundation whereby there was a down payment and in addition FINSAC or the Government also received a percentage of the amount JRF collected. The arrangement the Minister said was in the public interest. Your Commissioners would contend that since the high interest rate persisted over a prolonged period, then if FINSAC had been directed to impose a rate not exceeding 7% on any of the borrowers then more entities may have survived and that would be good for employment and growth in the economy. Such a course would also have been the public interest.

THE ISSUE OF THE REPAYMENT OF FINSAC LOANS.

The matter of the repayment was part of the questions put to the Minister prior to the evidence he adduced at the Enquiry. This is how he answered at pages 140-141 of the transcript

> **"Again, this relates to the option chosen. The loans were to be repaid in two ways from whatever proceeds in the first instance FINSAC received from divesting assets including the sale of the Union Bank and NCB and later on in terms of proceeds received from JRF. That would contribute to the repayment of the debts but by and large the repayments of the debt was and is the responsibility of the Ministry of Finance."**

The Minister continue thus at page 141 of the transcript

> **"Mr. Chairman, by virtue of what I said about the option chosen, FINSAC per se would never be able. By definition FINSAC existed because the value of the assets was only a percentage of the liabilities and hence the establishment of FINSAC was premised on the fact that the Ministry of Finance or the government would**

assume responsibility for the majority of the repayment of the loans which covered the liabilities. So the answer, FINSAC would never be able to clear those liabilities."

DID THE MINISTER GIVE THE CENTRAL BANKS SPECIFIC DIRECTIONS ON THE BROAD AREA OF MONETARY POLICY?

The role of the Minister regarding monetary policy is of especial importance to this Enquiry. A significant aspect of evidence reads thus at pages 62-63 of the transcript

"If I may anecdotally indicate that apart from official consultations, when I was Minister, each Tuesday morning -- that's the day after Cabinet, each Tuesday morning I met with the Governor the Central Bank, the Director General of the Planning Institute and the head of the FSC when it was established and Financial Secretary, et cetera, and within that context we discussed overall macro economic policy. So the interest rate policy was consistent with what are the needs of central government to finance the budget; what are the objectives in terms of inflation; what are the objectives in terms of stabilizing the foreign exchange markets; what are the objectives in terms of the domestic capital market? But in terms of the actual calculations in terms of what targets, et cetera, would be, that would be the responsibility of the Central Bank."

It is in this content that the following passage in the transcript at pages 149-150 appears,

"Q: Turning now, Dr. Davies, to an entirely different area which is interest rates now at a macro level. At any time were any directions given the to Central Bank concerning the interest rates?"

"A: The Answer is no sir."

"Q: Were any direction there?"

"A: Again the answer is no but as I have indicated earlier, the Central Bank was and is an integral part of the overall macro economic planning team, and so in structuring a programme, and certainly when the Minister of Finance announces an annual budget it's within certain assumptions related to interest rates that's not publicly articulated, exchange rate that is not publicly articulated but within the institutions there is a model. What is publicly articulated would be deficits and inflation targets, but those four. There is an implied range for the exchange rate but that would not be, neither the interest rate nor the exchange rate would be publicly articulated for obvious reasons, but there is a deficit target and there is an inflation target which is

announced. So within that context the Central Bank would participate in constructing the overall programme."

In furthering his explanation of the interaction between fiscal and monetary policy, the Minister continued thus at pages 151-152

"...I don't know about now, but previously from about October, November, you would be getting indications from Ministries as to what is their hoped for budget and after about three rounds of cutting and so on in about January and thereabout, you have a notion as to what that expenditure budget is. At that stage Cabinet has a Retreat to look at that expenditure which is the shopping list and how it can be funded which would be revenues plus borrowing. The borrowing would then give you the deficit size. At that stage the Bank of Jamaica would say if we are to allow the Private Sector so much credit then government can only get so much which then helps you to define the deficit and that's how the interaction proceeds because the size of the deficit impacts on interest rates so the BOJ would say if you want interest rates to come down then that deficit has to come down too. That is how the interaction, but there is no direction given to them to say them, this is the interest rate I want, it's an interactive process."

In this context your Commissioner Ross pointed out that there were both a high interest rate and high inflation policy and whether the effect of these policies were conveyed to the Bank of Jamaica. Here is the Minister's response at page 153-154 of the transcript,

"No, concerns were expressed and to be fair I do not believe the Central Bank was unaware of the negative implications, but at the same time as I sought to indicate before, it's always a trade off because at the same time we are seeking to moderate inflation and there is always a question: What is an the ideal range for inflation? It will never be settled, but we are also seeking to stabilize the foreign exchange market and I would argue that obviously nobody, I wouldn't claim that we got it perfect, but that interactive process, really, I believe seven years of single digit inflation which yielded relative stability in the foreign exchange market; it yielded a build up in reserves which facilitated the country being able to go the to capital markets, internal capital markets. So there were clearly negatives, and the rationale to go the to capital markets was to facilitate some of the required funding for government being sourced from outside which would then reduce the demand pressures on the domestic capital market, it doesn't bring interest rate down. And if I may say so myself, if you look in 2007, and I don't know why that year comes to mind, or September, 2007, the interest rates on the signal Treasury Bill was 11.85 percent which indicated that we were seeking to bring,

we had succeeded in some measure to bring interest rates down."

The Minister also stated thus at page 155 of the transcript

> **"The final thing I would like to say and this is one area where my successor and I see eye to eye, is that, there has to be more public pressure on the financial institutions in terms of the spread, either above the rates on government instruments or the spread above inflation in terms of commercial loans, but in terms of bringing interest rates down on the signal rate, 11.85 percent was not bad."**

Your Commissioners would point out that the consensus among economist on the issue of interest rates is that if the rates is that if the rates exceed 7%, it is not sustainable.

WERE DIRECTIONS GIVEN TO THE CENTRAL BANK TO MAKE LOANS TO INSOLVENT INSTITUTIONS?

The institutions in issue were Century National Bank and Workers Bank. The Minister words were short and direct. Here is how the answer emerged at pages 158-159 of the transcript

> **"Well, the critical issue from the perspective of the Central Bank is who will pick up the bill. And that would be the Ministry of Finance. And again I told you that we had taken a policy decision that we would not print money to address the debt, to address the problem."**

THE MINISTERS DEFENCE OF HIGH INTEREST RATE POLICY

Your Commissioner Bogle questioned the Minister on the deleterious effect on the real economy, the Minister's defence may be elicited on page 164 of the transcript

> **"...I understand the feeling that the Government clearly was a factor but I am saying to you Commissioner, that if you examined the operations of other institutions, they neither offered interest rates on deposits of that magnitude nor charged interest rates of that magnitude on loans. So in pursuing our investigation even as I understand as I said I don't believe there is anybody who has been exposed to more of the problems of the borrowers than I have been, but in pursuing this discussion we must then examine why there were institutions with bad loans portfolio not anything out of the ordinary. What is the difference in those managements and that to me is a critical issue which cannot be overlooked. So**

they were operating under the same overall macroeconomic conditions. But I think it's imperative Commissioners, Chairman and Commissioners, that you look at some of the activities which these entities entered into. Many moved into acquisition of real estate utilizing depositors' funds and then they had essentially nonperforming assets which were not bringing in any revenue and within that context they were forced to -- in order to meet their obligations pump up in terms of their interest rates on deposits and which led them into this vicious cycle. I am not for any one moment suggesting that the high interest rates being charged on government paper wasn't a factor but I am saying that there are clear examples of other institutions which managed themselves through that period. And that is irrefutable."

THE MINSTER'S ACCOUNT OF THE IMPROVEMENTS MADE ON AS A RESULT OF THE FINANCIAL MELTDOWN.

The Minister gave a full account on this at pages 170-172 of the transcript,

"There were several objectives and let me start with one which may seem almost innocuous but it was very critical. Well a stricter definition of fit and proper person; fit and proper criteria were made much more rigorous for managers, for directors and for owners. The supervisory authorities were given control over the change of owners. Previously if someone had a merchant bank licence they could just sell it. you Chairman, could just sell it to one of the other Commissioners and he would be in business. Now the licence has to be turned back to the regulatory authority and then they determine, anyone who applies, whether their capital is okay and they were fit and proper, that was tightened. There were more precise definitions of non-performing loans and the supervisory authorities were given stronger powers to prescribe accounting rules. They tightened the requirements for capital adequacy. There was limitation on institutions being able to lend to or invest in, to related parties. In these groups of companies, entities would be used the deposit taking institution would be used to finance the activities. There are sort of stronger powers given to the regulatory authorities and there are now two authorities; both the Bank of Jamaica and the FSC to take immediate action the moment problems are sighted. There are others important, but not as critical. For example auditors once simply reported their concerns internally and the auditing profession objected to this clause but we have stuck by it. They are required once they see something worrying or suspicious to alert both internally as well as the supervisory authorities. So there is a comprehensive set of measures aimed at making the supervisory authority more capable of acting as well as making entry into the sector more difficult."

ON THE INADEQUATE REGULATION OF INSURANCE COMPANIES

It was admitted by the Minister that the Superintendent of Insurance was civil servant directly under the Ministry of Finance and that the legislative framework was weak. He pointed out the complexity of the situation thus at pages 175 of the transcript

> "Well, sir, the situation is a little bit more complicated. If you look at the Insurance Companies they all – the three major ones were also involved in the banking sector. Mutual life had first Mutual Security then NCB, LOJ had Citizens, Island Life was part owner of Island Victoria. So whilst your point about the inadequacy of the regulatory authorities with regards to insurance it was broader than that and there is a term used of regulatory arbiters whereby you had people whose job was to find...A loophole."

Illustrating how gaps in the legislative framework enabled astute bankers to exploit the situation the Minister said at page 176 of the transcript,

> "Yes, but there are several – the creation of building societies or the establishment of building societies outside of the proprietary owned building societies, that turned out to be a major loophole which we had not anticipated and if you look at the operations of the Century building society, the Eagle building society, they were used as one of the major agencies for moving loans around et cetera. So at each time, at each moment you think you have captured loopholes then there were others which were opened."

That there were legislative and administrative improvements after the meltdown was stated by the Minister thus at pages 183 of the transcript,

> "We are seeking to get joint inspection of those entities which are licensed by both the BOJ and the FSC. We have sought to have the sharing of information such that if one institution sees something of concern, it's conveyed to the other so there is a financial regulatory council which has been established to facilitate that. It's not established in statute; it's established by the Minister to facilitate that closer collaboration."

With respect to Life Insurance Companies, The Minister said this at pages 183-184 of the transcript

> "Yes, FSC -- it's very good that you raised that, sir, because there is now a requirement for licensing of sales persons, brokers, they have to be formally registered, they can't just become a salesman by passing an exam, the FSC has to licence you, so there is -- I am not suggesting it's perfect, but there is a greater data set on the industry and ability to establish standards."

In explaining the difficulty of introducing legislative changes the Minister explained the history thus at pages 184-185 of the transcript,

> "Yes, in the sense that, for example, the BOJ now has powers to go up the ladder. For example, one of the difficulties we faced with the Century Financial institution was that the bank was owned by a holding company, the bank is subject to the regulatory authority of the Central Bank but not the holding company which then essentially was making the decision about the bank."

The loopholes in legislation relating to Building Society was even more glaving. Here is how the Minister stated at pages 185-186 of the transcript,

> "Similarly, prior to the legislative changes, anyone could go to the Deputy Keeper of Records and get a form and fill up and have a building society the next day. And it's not as crazy as it may sound, because nobody thought that it would be used for wrong purposes. The building societies like Credit Unions were seen as co-operative ventures but they were -the laws were not written to preclude exploitation. That now has been excluded, that approach, and to establish a building society, the Central Bank has to explicitly assess you and then determine whether such a licence should be granted. So there were several loop holes which were exploited which in a sense we learnt from those mistakes or from those deficiencies."

<u>**THE MINISTER'S EXPLANATION WHY THERE WAS DELAY IN SETTING UP FINSAC.**</u>

In explaining the ease with which Building Societies could be established it could be asked whether the public servants in the Ministry of Finance and the Bank of Jamaica did not anticipate that the system was open to abuse until the abuse took place. Similarly the issue of the delay in taking action with respect to the Banks required an answer from the Minister and this was an aspect stressed by your Commissioner Ross.

The Minister's response was that FIS was initially set up to deal with Blaize and Century Financial Institutions. Here is how the Minister responded at pages 189-190 of the transcript,

> "Well, I don't think that the matter could be dealt with in a matter of months. The FIS was established before to deal with the Blaise institutions and they also dealt with, if my memory serves me right, with the Century Financial Institution, so it's not that nothing was done but at that stage we thought we were dealing with -- it was basic intervention etcetera. FINSAC came about when we realized that, for example, that NCB which was one of the flagships also had difficulties, LOJ, so, we at that stage, it's not something which you became aware of in months as such, and when the more comprehensive -this is what we were seeking the advice Commissioner Ross of the multi-laterals bout, but even the discussion, even as the multi-laterals speak about more prompt action, just the discussions with them was itself taking months. So in retrospect you always have the situation, could you have acted more expeditiously. On the one hand we were seeking advice and consulting, on the other hand, locally we were seeking to work with the principals of the institutions and there is none of them who could claim that an opportunity was not afforded for them to do right and we felt that is also important even in retrospect."

The Minister sought to explain how difficult it was to take remedial action in the face of a systematic collapse of Financial Institutions in spite of warning signs from the Bank of Jamaica, here is how he states it at pags 192-193 of the transcript,

> "No, but part of the action, sir, is to say to them, bring in the principals and lay out what you need to do to address the issues. Now, there is an inspection, then the reports for that inspection would come to you months after, whatever, and they would also -- it's not that there is nothing done, but you would say lay out what are the requirements to heal the institutions, and to be fair to the principals as we sought to be, you would have to give them -- I mean you can't say to someone, bring another hundred million or two hundred million in capital, they would have to say I will do this within a particular time. But if you peruse, the difference between the Bank of Jamaica, and this is not a distinction I am seeking to draw, is that they can go back to file, I can't."

That the Ministry of Finance was the supervisor of Insurance Companies and that the intimate connection between them and commercial banks was bound to result in failure was put by your Commissioners to the Minister. Here is his response at page 194-195 of the transcript,

> **"Well, clearly, the Office of the Superintendent of Insurance, it was recognised that it was inadequate to deal with a sector which had grown significantly, and we were in situations where the sector had taken on other activities like they were in banking, they acquired banks et cetera. So it is true that the inadequacy of the supervision of the insurance companies, but those insurance companies were also involved in deposit taking through their subsidiaries and there were also problems there."**

A very important aspect of the Ministries answer on this ran thus on page 196 of the transcript

> **"…the persons who are the regulators were providing the answers which would be guiding us and they sought for another assessment and that was granted."**

Your Commissioners are of the opinion that the request of the then regulators namely the Bank of Jamaica and the Superintendent of Insurance ought to have been rejected as prompt actions were essential in the circumstances. There was either lack of liquidity or insolvency in many financial institutions.

The Minister inserted that there was an important aspect of the delay in not acting on the Bank inspections. The response was as follows at page 198 of the transcript,

> **"But in terms of the forensic audits, these also were situations where we were all awaiting the results of the forensic audit to have a definitive position."**

The Minister further insisted that in the delicate situation of closing down those institutions there was a need for fairness and in such a case a forensic audit is the strongest evidence available. It is put thus by the Minister at page 199 of the transcript,

> "Yes, Chairman, but as I indicated, it's not that you had principals who were agreeing with the Bank's assessment, they were always indicating that the Bank, the Central Bank had been too stringent in terms of assessing, and in such a situation, we certainly believe that when you are going to take action which is essentially moving people out of an industry, terminating that, that you needed to have the strongest possible evidence and so, either in the..."

The important issue of delay can be fully understated if the Minister insistence on equity is stated. Here is his statement at page 200 of the transcript,

> "...The Central Bank would say this looks suspicious or something or we have questions or doubts. When you have that -- in several instances even when we appointed receivers, it is then that we became fully aware of the extent of the problem. Now, I still would urge caution that even when one receives that first report from the Central Bank you bring in the institution and indicate what the nature of the report you have, but your still obliged, not by law, but you are still obliged to hear their side of the story and to verify exactly what is the situation. Now, I don't think the Commissioner would be suggesting that such a process not be followed, we may have a difference of opinion as to how long the process should take, but equity would suggest that you should be in a position to have another view of an assessment."

Your Commissioners are of the opinion that after according the Banks and Insurance Companies a fair hearing on the grounds of natural justice he should have closed the Banks.

These can be no doubt that the BOJ Inspectors reported to the Minister that Banks should be closed. The initial ones were Blaize and Century. Here was how the evidence reads with respect to these institution at page 200 of the transcript,

> "The Government sought external confirmation from Coopers & Lybrand to determine the viability of these entities. This report clearly indicated the insolvent nature of the entity (deficit of $149.2M) together with the major issue of mismanagement. Later, in 1996 PriceWaterhouse Canada also carried out work on a proposed restructuring plan for the CFEs. In the case of the Blaise entities the Government commissioned an independent assessment from PriceWaterhouse to ascertain the true value of assets, level of losses and capital required. These findings echoed the earlier findings and assessments of the BOJ Examiners".

The Minister sought to explain the Commission the difference in Public Administration between an institution as the Bank of Jamaica whose task it is to enquire and recommended and the Minister who is accountable to Parliament and has to take the final decision to close financial institutions. Here is how he put it at page 203 of the transcript,

> **"Well, I hear you Chairman, but if you look at the document which you have and it spoke to Blaise entities, it chronicles steps which were taken, that's one, but beyond that, we wish to and the advice that we had, we wished to be assured that we had clear evidence or support for any actions which were to be taken. The Central Bank, clearly the Central Bank's technical people carried out commendable work but what you would be having in one -- that distinction between Central Bank and Ministry of Finance is really conceptual, what you would have is judge and jury wrapped in one; what we had by inviting or commissioning external assessment was an independent assessment of the situation."**

It was in this context that the Minister said Bank licences was granted by him and only be revealed by him on the recommendation of the Bank of Jamaica. Additionally he pointed out under the reformed system which has been instituted the auditors have an increased role in issuing warnings. Here is how the Minister puts it at page 204 of the transcript.

> **"Well the situation has changed remarkably in the sense that many of the things which were picked up by spot examinations, et cetera, the Central Bank or the FSC would now be alerted in advance by the auditors who are now required to make these reports. So there are more early warning systems which would assist in that whole process. But the question is, is there still power with the Minister? The answer is yes."**