



Tithe an
Oireachtais
Houses of the
Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Clarification Statement of

Brian Halpin

Strictly Private & Confidential

As indicated on its cover page, the document(s) contained within are confidential unless and until the Joint Committee decides otherwise including where the Joint Committee publishes such document(s). For the avoidance of doubt, "documents" include witness statements in this context. Further to section 37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013 ("the Act"), while the documents remain confidential, you must not disclose the document(s) or divulge in any way that you have been given the document(s), other than:

- "(a) with the prior consent in writing of the committee,
- (b) to the extent necessary for the purposes of an application to the Court, or in any proceedings of the Part 2 inquiry, or
- (c) to his or her legal practitioner."¹

Serious sanctions apply for breach of this section. In particular, your attention is drawn to section 41(4) of the Act, which makes breach of section 37(1) a criminal offence.

¹ See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013

Voluntary Statement for clarification purposes by Brian Halpin, Knock na Cree Road, Dalkey, Co. Dublin, to the Joint Commission of Inquiry into the Banking Crisis, in response to the invitation from the Commission dated 2 October 2015.

Summary of my personal qualifications, experience and responsibilities in the Central Bank.

I joined the Central Bank as a school leaver in December 1963. While serving in the Bank I graduated with a B.Comm Degree from NUI by attending evening classes in UCD and subsequently qualified as a Certified Accountant (ACCA).

After serving in a range of financial and operational departments I was appointed to the Management Board of the Bank in 1990 as Assistant Director General with responsibility to the Director General for Corporate Services including, Human Resources, Information Systems In house services and the Legal unit. In December 2000, I was appointed Secretary of the Bank and Deputy Director General with line responsibility to the Director General for Financial Control, Financial Market operations and Payments and Securities settlements.

In this capacity I became a member of the Financial Stability Coordination Committee which was chaired by the Director General, Liam Barron. After the Central Bank and Financial Services Authority Act 2003 established the Regulatory Authority as an Autonomous body within the Bank the Committee became the Financial Stability Committee and the chief Executive and Prudential Director of the Authority joined the Committee. The Assistant Director General, Economic Division, M. Casey, and the Head of Monetary Policy and Financial Stability (MPFS), Frank Browne and economists from MPFS were also members of the Committee. MPFS provided secretariat support to the Committee and Mr Browne proposed the annual work programme.

In April 2005, Senior Management responsibilities were reviewed by the Governor following retirements and the appointment of two new assistant Director Generals. Tom O'Connell was given responsibility for the Economics Division, which included MPFS, and Tony Grimes was given responsibility for Financial Market Operations and Payments and Securities settlements Department. I resumed responsibility for an expanded Corporate Management role covering Financial Control, Information Systems, Human resources and Premises and support services while remaining Secretary of the Bank. I ceased being a member of the Financial Stability Committee at that time due to the change in my line responsibilities.

Following Liam Barron's retirement in July 2007, Tony Grimes was appointed Director General. At the Governor's and Mr. Grimes request I resumed responsibility for Financial Market Operations and Payments and securities Settlements while retaining responsibility

for Financial Control and continuing as Secretary of the Bank. This change in responsibilities was made at the stage when the liquidity pressures in the Market began to emerge. These remained my areas of responsibility until I retired from the Bank in February 2010.

Before addressing the list of questions to which the Joint Committee has invited me to respond on a voluntary basis for clarification purposes, I would wish to note that in my position as Secretary of the Bank and Deputy Director General I did not have line responsibility for the economics and Financial Stability area of the Bank. The Head of Monetary Policy and Financial Stability Department (MPFS), Frank Browne, reported to the Assistant Director General (ADG), Economics, and through him to the Director General. Tom O'Connell succeeded Michael Casey as ADG Economics in April 2005.

Question 1. In relation to the production of the 2004 to 2007 Financial Stability Reports.

(A) & (B) What were the Differences of opinion in relation to the articles that were to be included in the FSR? and between whom did these differences of opinion arise?

. As outlined above I was not a member of the Financial Stability Committee (FSC) from mid 2005 to mid 2007 when much of the discussion in relation to articles for the 2005-2007 reports would have taken place. As Secretary of the Bank however I would have had sight of and minuted Board discussions on those papers. At this remove I do not recall any specific differences of opinion in relation to articles to be included in the Financial Stability Reports and always understood that the published articles reflected the agreed consensus views of the Financial Stability Committee, the authors and the relevant members of Management. Certainly I was never approached regarding a concern about the validity of an article for any of the Financial Stability Reports that had been put on the Agenda for Board consideration

(C) & (D) Who proposed and who decided about the major themes in the annual FSR? Was the final decision made by the Financial Stability Committee or by the CBFSAI?

My understanding was that the major themes in the annual Financial Stability Reports were proposed by Frank Browne, as Head of MPFS and finalised in discussion at the Financial Stability Committee to the satisfaction of the Chairman and members of the Committee. The agreed theme would be proposed to the Governor, by the Director General and through the Governor to the Board of the Bank and the Regulatory Authority which met in Joint session for formal approval of the Reports before publication. Ultimately the final decision on articles to be published in the Financial Stability reports required the approval of the Joint Board and Regulatory Authority.



(E) Before a draft version of the FSR was discussed on the CBFSAI Board, who made the final amendments to the report?

Draft papers for the Financial Stability Reports would be circulated by the authors to relevant members of management in the Bank and the Financial Regulator. Comments would be accepted by the authors or discussed with the officer who sent the comment. I do not recall specific examples at this time but my understanding was always that the draft articles submitted for Board and Regulatory Authority had been agreed by the parties and in particular where, as was the practice, the authors and sponsoring departmental management attended and presented key articles at the Board meetings. Final amendments to draft versions of the FSRs could be made by the relevant line management up to and including the Director General and the Governor. To my knowledge, the procedure was that in all cases any amendment would be sent to and usually discussed with the Author with a view to agreeing the change.

(F) What was the role of the head of monetary Policy and Financial Stability Unit , Frank Browne, in this process?

Frank Browne, as head of MPFS, reported to the Assistant Director General, Economics Division. He was a central member of the Financial Stability Committee (FSC) and was responsible for proposing themes and drafting key articles for the annual FSRs. The secretariat for the FSC, which was chaired by the Director General, was provided by MPFS Department and Frank Browne would have worked directly with the Director General in relation to his Financial Stability responsibilities as required. In this regard I would like to emphasise that while the organisation of the Central Bank was set out in clear hierarchical lines, working relations and access to senior management and between different departments was generally very fluid and informal. Mr Browne, if available, attended and presented at the Central Bank Board and Joint Board/Authority meetings when articles and summaries drafted by his department for the annual FSRs were being considered. I always understood him to be a driving force behind the Financial Stability Reports and that he agreed with their content.

(G) Were further changes in relation to the inclusion of articles and reviews made on the level of the CBFSAI Board?

A substantial range of questions and comments were always made by Directors and Members of the Authority in substantive free flowing discussion when the draft FSRs were considered at Joint Board meetings. They would be responded to by the presenting authors or management and any suggested changes would be taken away for consideration and review by the authors in consultation with Management. Substantive points, if agreed, would be reflected in a revised draft by the authors which would be submitted for formal approval at another meeting or by written procedure or by the Governor if the meeting so

Handwritten signature in blue ink and the number 3.

agreed. I do not recall any occasion when, to my knowledge, consensus was not reached by all relevant parties to changes made in FRS articles through this procedure. Certainly no objection was ever raised with me in my capacity as Bank Secretary and Deputy Director General regarding changes to or deletion of articles from any FSR.

(H) What role did you specifically play and who had the final say on content and wording of the FSRs?

I was a member of the FSC as Deputy Director General while I had responsibility for the Financial Operations departments, (2,001-April 2,005 and from August 2,007 until I retired in February 2,010), because of the relevance of the Central Banks Financial Operations to Financial Stability. In that role I participated at and contributed to the meetings of the FSC. However most of the work of the FSC fell to the Economist Departments and in particular MPFS. I continued to be on the circulation list for draft FSR papers after April 2,005 and would have made only occasional comments which I would leave to the discretion of the originators or their superiors to consider.

As Secretary of the Bank, I arranged the submission of all papers to the Board and accordingly would have received all the FSR papers and attended and minuted the Board consideration of the FSRs. I also attended the annual FSR Round table meetings with Banks.

The Joint Central Bank and Regulatory Authority had full responsibility for and approved the content and wording of the FSRs. Following the Joint Board discussion, the Governor would normally be given discretion by the Board to approve any necessary final editing before publication. Any such editing could only reflect the Board discussion and incorporate any update of data and technical corrections.

2. What were the events or considerations that led to the preparation of the McQuinn Paper on fundamental house price valuation in 2004?

The McQuinn Paper 'Irish house price Levels: A further perspective' was considered by the Board at its meeting on 29 April 2004.

While I cannot recall who would have proposed this item for the agenda for that meeting I would not have been surprised that a paper on this subject had been prepared in the Bank's Economic Analysis Research and Publications Department for Board consideration given the considerable interest in the reasons for the rapid increase in Irish house prices at that time. I am advised that the then Head of The Economic Analysis Research and Publications, Tom O'Connell, asked Dr McQuinn to undertake research work on house prices sometime in 2003 and that work led to the preparation of this paper. Following consideration of the paper the Board agreed that the Bank should undertake further work on the identification

of data which might serve as an advance indicator of a weakening in demand and/or house price levels.

I was not aware of any reservations regarding the undertaking of this analysis or the methodology used by Dr McQuinn as an economist in the Bank's Economic Analysis Research Department.

Question 3. At least two reports giving estimates on house price valuation had been prepared for inclusion in the FSR 2007. The mention of certain percentages indicating the degree of estimated overvaluation was included in the draft FSR 2007, but was removed in the final version/

(a) Can you outline the considerations that led to the removal of these figures?

(b) Who decided that these should not be included?

The minutes of the Joint Board and Authority meeting on 27 September 2007 record that the meeting considered a draft of the Executive Summary and Main article for the FSR for 2007. These papers were drafted in MPFS Department. The ADG Economic Division, O'Connell, the Head of MPFS, F. Browne and four of his economist staff attended the meeting. The draft papers included a section on 'Measures of Overvaluation in the Residential Housing Market' in which it was reported that a recently developed model of house prices in the Bank based inter alia around the borrowing capacity of house buyers points to an overvaluation of the order of 39% in the first quarter of 2007. The minutes record that the meeting considered that in the continuing turbulence and uncertainty in the financial markets since early August the tone and content in the FSR will be of particular importance and sensitivity. In view of the importance of reflecting the most up to date position a final iteration of the Report was circulated for Board consideration at its meeting on 18 October.

The Board of the CBFSAI (the Bank) meeting on 18 October considered revised drafts of these papers which were prepared in MPFS Department. The Head of MPFS, F. Browne and two of his economist staff, attended the meeting during consideration of these draft papers. The Minutes record that the meeting noted that the draft FSR had been updated in the light of the discussion at the Joint Board/Authority meeting on 27 September and developments in the intervening period. The meeting agreed that the right balance had been struck in commenting on the potential risks to Financial Stability and that the FSR should be finalised by the Governor taking account of the meeting discussion and any further bilateral comments by Directors or Members of the Authority who had also been circulated with the revised draft. The FSR was published on 14 November 2007.

The revised draft FSR considered by the Board on 18 October did not include a reference to the study which pointed to an overvaluation of the order of 39% in house prices in the first quarter of 2007. While I would have received copies of all papers before the Board and I minuted the Board meetings, I do not recall being involved in any discussion regarding a decision to delete the reference to the house price study which pointed to an overvaluation of the order of 39%. The FSR drafts were prepared in the MPFS department which was headed by F. Browne who reported to the ADG Economics, T.O'Connell, who reported to the Director General, T. Grimes. Mr Grimes succeeded W. Barron as Director General in August 2007. I was not aware of any disagreement within the Bank with the wording and content of the FSR when it was published in November 2007.

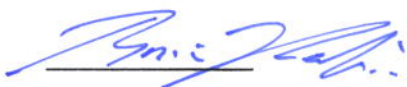
Question 4.

(a) What were the considerations that led to the invitation of banks before publication of the FSR in 2005 and 2006?

(b) Did these meetings lead to any changes in the messages of the FSRs in those years?

I was not a member of the FSA when the FSRs for 2005 and 2006 were drafted and published but I attended the Round table meetings with the Banks and Building Societies as a senior member of the Central Bank management team. These meetings were arranged by the CBFSAI to emphasise the analysis in the FSR and receive feedback from the banks and building societies.

These meetings normally were normally held after publication of the FSR and could not therefore impact on the content of the FSRs. One round table meeting was convened in advance in September 2005 following the circulation of a questionnaire to the credit institutions. The structure and publication of FSRs by central banks was a relatively new concept and was still evolving at that time. I don't think anything significant which would have influenced the preparation of the FSR 2005 resulted from the meeting in advance of publication and this approach was not repeated in subsequent years. There is nothing in the Board minutes to suggest that the feedback from the Credit Institutions lead to any change in the message of the FSR.



Brian Halpin

22 October 2015