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Joint Committee of Inquiry into the Banking Crisis

Clarification Statement of

Thomas O'Connell

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

Response to Questionnaire of 2 Oct

Q 1 (a) I cannot actually recollect anyone from the CBFSAI use the term 'soft landing' at the 2004 Roundtable. I would have been surprised if it were used. The purpose of the Roundtable was to convey to the banks the Bank's views on financial stability and, in so far as banks would be forthcoming in such an open forum, to elicit their views on those issues. The implicit view of the Bank would have been that any financial stability issues were manageable, but I doubt that the explicit term 'soft landing' would have been used.

(b) As the above suggests, I would have been very surprised to be told that the formal presentation included the words 'soft landing'. It could conceivably have arisen in the informal discussion / exchanges with the banks after the presentation. Having said that, I would have thought that the optimal stance from the Central Bank's point of view would have been to leave an impression of 'constructive ambiguity' regarding a hard or soft landing. If the Central Bank were to point to a soft landing, it could lead to an unwarranted degree of complacency on the part of the banks in their management of their affairs.

Q 2(a), (b): I cannot recollect any significant conflict over the choice of special articles that were to be included in the Financial Stability Reports (FSRs). It was very clear to anyone familiar with the economic and financial scene what the key, relevant issues were, and that was the basis on which articles were chosen. To some extent, the Bank could distance itself from the views and conclusions of the

articles since these were signed articles which, by convention in most central banks, did not necessarily represent the formal views of the Central Bank. As regards the content of these articles, the top three people in the Bank – Governor, Director General and Deputy Director General - did not usually concern themselves for the reason, I believe, that the analysis and conclusions would not be regarded as the formal views of the Bank. Typically, the authors of these special articles would have presented the papers at internal seminars and have received comments there. The most senior people who would have had input into these articles were myself as Head of Economics and Frank Browne as Head of Financial Stability.

(c): The major themes would normally have been proposed by Frank Browne, the Head of Financial Stability, to the Financial Stability Committee (FSC). As indicated, it was usually very clear as to what issues should be considered in the light of what was happening in the economy and the financial sector. I cannot recall the FSC demurring from the proposed themes to any degree, and sometimes there may have been some additional theme suggested by the FSC.

(d): The FSC would in practice have the final decision on the themes in the FSRs, although the CBFSAI Board could, of course, have altered those if it saw fit. I cannot recall any such intervention.

(e): The top three people in the Bank would have had the final say in amending the FSR before being sent to the CBFSAI Board. The most active of the three in this regard would have been Liam Barron, the Director General and Chair of the Financial Stability Committee; he also normally chaired the Roundtables with the bank.

(f): Frank Browne, as the Head of Financial Stability, was responsible for co-ordinating or putting together the draft FSR. In keeping with the hierarchical nature of the Bank (noted by Peter Nyberg in his

report), the amendments proposed by the top three executives in the Bank would be incorporated into that draft before submitting it to the Board.

(g): I cannot recollect that the CBFSAI Board made changes in regard to the inclusion of articles and reviews in the FSRs. However, the Board did have a major input into setting the tone of the FSR – in the overview / editorial / the Governor’s introduction. Perhaps not surprisingly, that tone tended to be reassuring, since a central bank could scarcely say that we were facing a major banking problem. However, notwithstanding that, as I said in my Opening Statement to the Banking Inquiry, the Bank and Regulatory Authority should have been working behind the scenes to curb the reckless lending of the banks. Regrettably, that did not happen until it was too late.

(h): My role was to contribute to the preparation of the draft FSR. As far as I recollect, I would also have suggested areas to focus on in the FSR, although these would presumably have been evident to Frank Browne and his team in any event. I would have liaised closely with Frank Browne on both the main body of the FSR and the special articles. I provided detailed comments to Frank Browne on these for the report. Formally, the final word on the FSR would have rested with the CBFSAI Board but, in practice, the final say re content and wording rested with top management, principally with Liam Barron.

Q 3: There were major concerns in the Economics area of the Bank with the continuing rise in property prices, and therefore there was a need to try to assess to what extent property prices were overvalued. It was decided to augment various informal methods for doing this with an econometric approach that the Mc Quinn study employed.

Q 4(a): As far as I aware, there was no consideration given to the removal of overvaluation estimates. It was arbitrarily decided to exclude these – presumably on the grounds that, as property prices continued to escalate to unsustainable levels, the publication of large overvaluation estimates could lead to the bubble bursting.

(b): Liam Barron decided to exclude the overvaluation estimates from the 2007 FSR

Q 5(a): There seemed to be different views as to whether to meet the banks before or after publication of the FSRs. I think that, in those years, 2005 and 2006, it was felt that it might be useful to hear the views of the banks as a possible input to the FSRs. On other occasions, the view probably was that the Bank had a sufficient view of overall developments, and that it was not necessary to meet the banks in advance of publication; in any event, individual banks were very likely to be inhibited in giving their real opinions in the presence of competitor banks.

(b) No, I don't believe that the commercial banks' views led to any significant changes in the way the Bank viewed the financial stability scene. The banks always maintained that everything was fine. Meeting the banks, therefore, did not lead to changes in the messages in the FSRs.