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Joint Committee of Inquiry into the Banking Crisis

Section 24 Statement of

Allan Kearns

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Comments of Allan Kearns in relation to the proposed statement submitted by Frank Browne and in response to additional queries by the Joint Committee of Inquiry into the Banking Crisis

The Joint Committee of Inquiry into the Banking Crisis circulated to me a statement by Frank Browne for my review. Subsequent to this communication in a letter dated 2 October 2015, the Committee asked also for my perspective on issues broadly related to the production of the Central Bank's annual financial stability reports, and I have supplemented this statement with additional information on that process.

My statement is not a general reply to all of Frank Browne's statement. On pages 39-46, Frank Browne describes in detail the process surrounding the production of the Financial Stability Report (FSR) 2007. Within this narrative on pages 44 and 45 (See Appendix 1 for the relevant paragraphs), there is a misleading and incorrect impression created by Frank Browne in respect of my role in presenting to the Board meeting in September 2007 and the content of that presentation. It is this section which is the focus of my comments.

1. All presentations on the FSR 2007 which I made to the Board were made by me on behalf of the Financial Stability Division (of which Frank Browne was Head and where he was a superior in terms of line management) (See Appendix 2 for further details);
2. Frank Browne (as well as other financial stability colleagues) was in attendance at all three Board meetings in 2007 at which the FSR was discussed. The minutes of the September 2007 Board meeting record that there was a detailed discussion of the 'tone and comment' of the Report. Frank Browne could have made any clarification to the tone or content of the presentation that he saw necessary to address the concerns he is now relaying that he had¹;
3. I presented the FSR 2007 to the September Board meeting on the basis of the approach agreed at the previous Financial Stability Committee (September 13th 2007) (Appendix 3). With regard to changes made to the Executive Summary document by the Governor/Director General, Frank Browne was alerted to these changes in advance of circulating the documents to the Board for the 27th September meeting.² Indeed the FSR was typically published after approximately 6 months of internal discussion at both Executive and Non-Executive level (Appendix 4);
4. Frank Browne highlights the absence of a reference to overvaluation data on the residential property market in my presentation on September 27th 2007. The purpose of the presentation at the Board meeting was not a detailed facts and figures presentation. The minutes record that it was *"a short presentation to the meeting summarising the assessment of financial stability in the Report indicating the changes since the 2006 Report and the assessment in the first iteration of the 2007 draft Report in June"*. In addition, Frank Browne's commentary does

¹ See the relevant minutes for 27 September 2007 CBFSAI Board Meeting.

² This notification was by email.

not acknowledge that the presentation to the Board noted “*uncertainty about future path of house prices*” as the first issue in the 2007 assessment³;

5. While the 39% overvaluation estimate on residential property produced by the McQuinn-O'Reilly model was not included in the presentation to the September Board meeting, the information available to me indicates that Paper 112 of 2007 (Titled Financial Stability Report 2007) sent to the Board in advance for consideration at that meeting included overvaluation estimates in the range up to 70%+ and included the McQuinn-O'Reilly estimate of 39%. It would have been highly unusual for papers not to be circulated to the Board several days in advance of their meeting. While a tracked change to this document on the morning of the Board meeting is evident from a version of a paper last saved on the 3rd October 2007⁴; the minutes do not record that an amended document omitting the 39% estimate was tabled at, or on the morning of, the September Board meeting. On the basis of the foregoing, I believe that the document circulated to the Board in advance of the September Board meeting included the 39 per cent overvaluation detail;
6. When Frank Browne notes that the Governor's briefing note for the Board Meeting on September 27th 2007 did not include reference to the 39 per cent overvaluation; he fails to mention that I did not author that note;
7. By way of additional context, the role assigned to myself and my economist colleagues by Frank Browne and the management team was that of technical experts; contributing to the drafting of the annual financial stability reports, conducting research and when requested to do so presenting on behalf of the division to senior executives, the Board and various external parties. Where changes were requested by more senior colleagues to be made to documents prior to publication, our role was to implement those changes; and
8. Finally, while Frank Browne notes concerns about the process of finalising the FSR for 2007, which he traces in part to the presentation made and subsequent discussion at the September Board meeting; following a further Board meeting and discussion in late October, both Frank Browne and the Governor *jointly* presented the Report to the media on 14th November 2007. This was a final opportunity for either presenter to clarify the importance of the overvaluation statistics and other key data.⁵

For the reasons set out above, Frank Browne's assertions in relation to my role in presenting to the Board meeting in September 2007, and the content of that presentation and of documentation submitted to the Boards in advance of the meeting, are misleading and wrong. I include a number of supporting appendices overleaf.

³ See the presentation made to the joint Board meeting on 27th September 2007 for the FSR agenda item, as supplied to the Inquiry by Frank Browne.

⁴ I understand that Frank Browne has supplied this document titled “Post September Board Amendments” on a USB key. I can forward this document if requested by the Inquiry.

⁵ I did not attend the launch as I was on paternity leave at this point.

9. The Committee has enquired more generally about the production process surrounding the Financial Stability Reports (FSRs) 2004-2007. I have addressed some of these queries in my responses above. With respect to the production of the FSRs more generally, the process that I describe for 2007 in Appendix 4 was typical; although my recollection is that the process became elongated over time when compared with the initial 2004 report.

The Committee has enquired about the decision-making process to determine the signed articles to be included in the published reports. In my recollection⁶, there were three broad hurdles facing papers before final approval for publication. Further, as papers progressed through these stages it was expected that comments as they arose would be incorporated by the authors:

- The papers would need to be approved by the management team within the Financial Stability Division;
- The papers would need to be approved by the Financial Stability committee; and
- The papers would need the final approval of the CBFSAI Board (mostly meeting in extended composition).

My recollection is that it was ultimately the CBFSAI Board who decided on the core messaging within the FSRs including the signed articles; with the authority to make final minor editorial changes prior to publication delegated to the Governor/Senior Executive.

The Committee has enquired about the roundtable meetings with commercial banks that occurred around the publication of the Financial Stability Reports. My recollection is that these meetings were first and foremost an opportunity to present our concerns on financial stability to senior representatives of the banks and to ascertain their views. Some of these meetings happened in advance of the Financial Stability Reports. My sense is that the meetings were held in advance in order to inform the analyses to be included in the financial stability reports (as attendees at the meetings often included the respective banks' chief economists). However, I do not recollect that these meetings had a material impact on the subsequent messaging within the FSRs for two reasons: (i) banks' representatives were circumspect in sharing their institution's opinions in an open forum and in front of other banks, and (ii) the discussions tended to be dominated by quite technical economic and financial issues.

⁶ The Committee has enquired generally about the FSR process over the period 2004-2007. Some limited access was granted to my email archives for 2007 but the archive is incomplete. I have had no access to archives for the period 2004-2006. My replies above are accordingly based on my recollection and/or reviewing some of the archived documentation from that period.

APPENDIX 1: EXTRACT FROM FRANK BROWNE STATEMENT

Page 44/45 of Composite Statement Referenced FBR01B02

“Both the Overall Assessment Paper No. 112 of 2007 and the Executive Summary Paper No. 111 of 2007 were due to be circulated to the Board on 21 September for the meeting on the 27 September 2007 as was the established procedure.

It is not clear which version of the Overall Assessment paper was sent to the Board. What is clear is that there was an amendment made to the report on the morning of the meeting (at 8:48 am). The amendment was to delete the reference to the 39 per cent overvaluation and the footnote from the Overall Assessment (Main Report) (see separate USB key).

The presentation of the Overall Assessment (Main Report) to the Board was made by Allan Kearns (Tab 81). The Governor’s briefing note (Tab 82) did not mention the 39 per cent overvaluation nor did the presentation of the Overall Assessment by Kearns. Indeed, the overall tone of the presentation would have been entirely inconsistent with all indicators now pointing to such a large overvaluation.

It is very likely that, if the Board members had the information on the 39 per cent, they would have noticed this inconsistency. I could be wrong, but this leads me to believe that the Board members did not have the document with the 39 per cent included and that the version of the report which they received was the one that was amended on the morning of the meeting.

However, I am now aware from Tom O’Connell’s testimony to this Inquiry that this information did not reach the Board. It therefore appears that, at the Board meeting, neither the Board members nor I were aware of the 39 per cent bubble estimate while, it looks as if senior management and some staff were aware (but I clearly cannot be sure of this).”

[Statement Continues...]

APPENDIX 2: MY ROLE WITHIN THE FINANCIAL STABILITY DIVISION

Over the period mid-2002 to 2008, I worked as an economist within what was ultimately labelled the Financial Stability division, reporting to a Deputy Head of Division, who in turned reported to Frank Browne as Head of Division. I was never a member of the management team of the Financial Stability Division (See High Level Organogram below). I was promoted eventually to be a senior economist within the team. I was promoted out of the division in May 2008 to take a management role within another division;



My broad responsibilities as an economist were primarily analytical with a view to understanding developments affecting the wider financial system (by looking at trends affecting the banking system (not individual banks), households, corporates, and the wider macroeconomy); to publish research; to contribute to the publication of the financial stability reports, and to liaise with internal and external stakeholders.

APPENDIX 4: HIGH LEVEL OVERVIEW OF KEY GOVERNANCE MILESTONES OF THE FINANCIAL STABILITY REPORT 2007

The presentation at the September 27th 2007 Board meeting was only one of many opportunities for all stakeholders to input into the FSR 2007. The process to finalise the Report took approximately 6 months, including discussions at numerous internal Financial Stability Committees and Board meetings. The following is a broad outline of the key meetings where the FSR 2007 was discussed (this is not an exhaustive list):

Date	Meeting	Purpose and Outcome as per Minutes (where applicable)
17 April 2007	Financial Stability Committee	The Committee met to discuss draft articles for inclusion in FSR. The outcome was a direction to continue working on these topics.
12 June 2007	Financial Stability Committee	The draft Executive Summary, Overview, Boxes and Charts had been circulated for discussion under this item. The outcome was for the FSR draft documents will be revised to take account of the discussion. The revised documents will be circulated for final approval by FSC members before presentation to the Joint Board / Authority meeting in June.
26 June 2007	Joint Meeting of CBFSAI/Regulatory Authority Boards	The Boards met to consider the Executive Summary, Main Report, Boxes and Charts.
13 September 2007	Financial Stability Committee	The Committee met to discuss the evolving text of the FSR. The outcome was agreement on the text of the FSR Executive Summary and the overall Report will now be revised to take account of the above and will be re-presented to the Joint Board / Authority meeting on 27 September.
27 September 2007	Joint Meeting of CBFSAI and Regulatory Authority Boards	The Boards met to consider the Executive Summary, Main Report, and Signed Articles. The meeting agreed to reconsider the Report at its October meeting, when the views of the September Board meeting will have been incorporated.
18 October 2007	CBFSAI Board	Drafts of the Executive Summary, Main Report and a Box on the international literature on house prices were circulated in advance (October 11 th). The meeting was to consider the Executive Summary, with bilateral comments requested on the Main Report and the Box. Approval given to Governor to finalise for launch on 14 November, taking account of the meeting discussion and any further bilateral comments by Directors or members of the Authority who had been circulated with the revised draft.
Week beginning 5 th November 2007	Material Final at Printers	The outcome is the final published FSR 2007.
14 th November 2007	Governor/ Frank Browne	FSR 2007 is launched to the media.

