

**Questionnaire in Advance of Treasury Committee hearing
Donald Kohn**

1. *Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your duties as a member of the FPC?*

No, I do not have any such interests or commitments, and I have been and will continue to check with the Bank of England before making any commitments to ensure that no such conflicts arise. I am a senior fellow at the Brookings Institution, a nonprofit public policy research organization. In addition, I am on the Board of Directors of AlliancePartners, a start-up company that will identify, originate, distribute, and service commercial loans to small and regional banks in the United States. I give speeches sponsored by a wide range of both financial and nonfinancial businesses arranged through the Washington Speakers Bureau. I am on advisory committees for the IMF and FDIC. I am about to become a trustee of the College of Wooster, my alma mater. I will soon become Senior Economic Strategist for the Potomac Research Group, analyzing economic developments in the United States for their clients, which are entirely U.S. based.

2. *Do you intend to fill out the full term for which you have been appointed?*

Yes.

3. *Please explain how your experience to date has equipped you to fulfill your responsibilities as a member of the FPC. In particular, what areas of the FPC's work do you believe you will make a particular contribution to, and which will you have to undertake additional research into upon your arrival?*

Throughout my years on the staff of the Federal Reserve Board (1975-2002) I dealt closely with the behavior of financial markets. For example, as Secretary of the Federal Open Market Committee and director of the Division of Monetary Affairs from 1987 to 2000, I served as liaison between the Board of Governors and the Federal Reserve Bank of New York in the daily execution of open market operations and monitoring of developments in financial markets; I was also responsible for the administration of the discount window for the Federal Reserve system. In those positions I played an important role in advising the Board on financial stability issues, especially when stability was threatened by such developments as the stock market collapse of 1987, the failure of many banks and thrifts in the late 1980s and early 1990s, and the Russian debt default-LTCM disruptions of 1998. Throughout this period I also developed close working relationships with other central bankers dealing in monetary policy and financial markets.

When I became Vice Chairman of the Board in June 2006 I began to attend some BIS meetings as the Federal Reserve representative and became the chair of the Committee on the Global Financial System. The CGFS monitored and studied the stability of financial systems around the world, reporting to the governors of the central banks. Those responsibilities took on added importance as the financial crisis erupted and then deepened beginning in the fall of 2007. The reports of our meetings to the governors helped to focus their discussion on vulnerabilities and responses. In response to the crisis, the CGFS undertook studies on liquidity management of globally active banks, on margining and haircut practices for securities financing, on macro-prudential regulation, on the provision of liquidity by central banks, and other topics. As chair of the CGFS, I also served on the Financial Stability Board, helping to identify sources of instability in global financial markets and suggest reforms to address those vulnerabilities.

In addition, I was deeply involved in the Federal Reserve's reaction to the financial crisis, working with Chairman Bernanke and others in the Federal Reserve System and the Treasury to understand what was happening and to design responses that contained the damage. Among many other tasks, I oversaw the "stress tests" for the Federal Reserve in the spring of 2009; the design and execution of those tests demonstrated the value of combining the expertise of economists and supervisors and of conducting the same forward-looking tests across all systemically important banks simultaneously—a template that subsequently has informed the conduct of supervision in the United States and elsewhere.

This background has given me a detailed understanding of the U.S. financial system and, importantly, its vulnerabilities that I believe will be quite useful to the FPC as it assesses the stability of the U.K. financial system. U.S. financial markets are critical to global stability, as we saw over the past few years, and problems that arose in U.S. markets could well show up in U.K. markets. In addition, this background, along with my experience working with other central bankers over the years and my time on the CGFS and FSB means I have considerable knowledge of global financial markets and their interconnections, including the international and wholesale markets in which global U.K. banks operate; this will be especially helpful as the FPC considers the implications for financial stability of the actions and positions of global banks headquartered in the U.K.

I recognize that I need to enhance my knowledge of the particular characteristics of the U.K. financial system, especially the retail operations of that system. I have requested and received suggestions for background reading from the staff of the FPC, which I am pursuing. In addition, they are arranging opportunities for me to meet with participants in the U.K. financial system. I

expect to continue the program of periodic meetings with U.K. market participants while I am on the FPC.

4. *Which of your publications and papers are of most relevance to your future work on the FPC?*
- 5.

Testimonies:

June 19, 2008. *Risk management and its implications for systemic risk* Before the Subcommittee on Securities, Insurance, and Investment, Committee on Banking, Housing, and Urban Affairs, U.S. Senate <http://www.federalreserve.gov/newsevents/testimony/kohn20080619a.htm>.

June 5, 2008. *Condition of the banking system* Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate.
<http://www.federalreserve.gov/newsevents/testimony/kohn20080605a.htm>

Speeches:

January 29, 2010 *Focusing on Bank Interest Rate Risk Exposure* At the Federal Deposit Insurance Corporation's Symposium on Interest Rate Risk Management, Arlington, Virginia.
<http://www.federalreserve.gov/newsevents/speech/kohn20100129a.htm>

November 16, 2009. *Policy Challenges for the Federal Reserve* At the Kellogg Distinguished Lecture Series, Kellogg School of Management, Northwestern University, Evanston, Illinois.
<http://www.federalreserve.gov/newsevents/speech/kohn20091116a.htm>

July 10, 2009. *Comments on "Financial Intermediation and the Post-Crisis Financial System"* At the Eighth BIS Annual Conference 2009, Financial System and Macroeconomic Resilience: Revisited, Basel, Switzerland.
<http://www.federalreserve.gov/newsevents/speech/kohn20090710a.htm>

September 11, 2008. *Comments on "Financial Regulation in a System Context," "Beyond Leveraged Losses: The Balance Sheet Effects of the Home Price Downturn," and "The Central Role of House Prices in the Financial Crisis: How Will the Market Clear?"* At the Brookings Panel on Economic Activity, Washington, D.C.
<http://www.federalreserve.gov/newsevents/speech/kohn20080911a.htm>

April 17, 2008. *The Changing Business of Banking: Implications for Financial Stability and Lessons from Recent Market Turmoil* At the Federal Reserve Bank of Richmond's Credit Market Symposium, Charlotte, North Carolina
<http://www.federalreserve.gov/newsevents/speech/2008speech.htm>

May 18, 2006. *The Evolving Nature of the Financial System: Financial Crises and the Role of the Central Bank* At the Conference on New Directions for Understanding Systemic Risk, New York, New York. <http://www.federalreserve.gov/newsevents/speech/kohn20060518a.htm>

Research papers:

April 2010. Financial Statistics for the United States and the Crisis: What Did They Get Right, What Did They Miss, and How Should They Change? Matthew J. Eichner, Donald L. Kohn, and Michael G. Palumbo <http://www.federalreserve.gov/pubs/feds/2010/201020/201020pap.pdf>

August 2007. The Rise in U.S. Household Indebtedness: Causes and Consequences
Karen E. Dynan and Donald L. Kohn
<http://www.federalreserve.gov/pubs/feds/2007/200737/200737pap.pdf>

Selected CGFS Papers under my Chairmanship:

Funding Patterns and Liquidity Management of Internationally Active Banks
<http://www.bis.org/publ/cgfs39.htm>

Macroprudential Instruments and Frameworks: A Stocktaking of Issues and Experiences
<http://www.bis.org/publ/cgfs38.htm>

The Role of Margin Requirements and Haircuts in Procyclicality
<http://www.bis.org/publ/cgfs36.htm>

Central Bank Operations in Response to the Financial Turmoil <http://www.bis.org/publ/cgfs31.htm>