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Gníomhaireacht Bainistíochta an Chisteáin Náisiúnta
National Treasury Management Agency

Statement by NTMA Chief Executive John Corrigan to the Committee of Public Accounts

13 February 2014

Chairman, Deputies

On behalf of myself and my colleagues from the NTMA, and Paul Carty, Chairman of the NPRF Commission, I welcome the opportunity to meet with the Committee this morning. We have given the Committee a comprehensive briefing note on recent developments in relation to our funding and debt management activities, the NPRF, NewERA and the State Claims Agency so I propose to make a just few short opening remarks in relation to each of these areas.

Return to the bond markets

When I was last before the Committee in November 2012 the backdrop was quite different. Ireland was still in the EU/IMF Programme but the NTMA had secured a toehold in the international debt markets following the resumption of monthly auctions of short-term treasury bills in the summer of that year. We had also begun to chip away at the funding cliff presented by a €12 billion bond then due for redemption in January of this year, by offering holders of that bond switching terms into other longer dated bonds and through limited new issuance. These were positive developments, to be sure, but a far remove from full market access.

In 2013 the NTMA raised €7.5 billion from two medium and long-term syndications and eliminated the January 2014 funding cliff, which was seen by investors as a major obstacle to Ireland's smooth exit from the EU/IMF Programme. At end 2013 we maintained Exchequer cash and deposits of €18.5 billion, leaving the Exchequer fully funded into the first quarter of 2015 and providing investors with the necessary funding visibility to enable us successfully exit the EU/IMF Programme. In January, Ireland was the first European country to tap the syndicated bond market in 2014, completing a €3.75 billion 10-year issue at a yield of 3.54 per cent. Crucially, while we had already demonstrated our ability to access the markets, this was the NTMA's first capital market transaction since the exit from the EU/IMF Programme.

The NTMA has conducted a proactive investor relations programme since 2011 with face-to-face meetings, in most cases twice a year, in the main investment centres in Europe, North America, Asia and the Middle East as well as holding regular meetings with Irish investors. As a result of this the NTMA was able to bring the new 10-year bond to the market at very short notice in the first week of January 2014. Having just exited the EU/IMF Programme it was important for Ireland to display that it had full market access and being first into the markets before other sovereign borrowers had announced their issuance plans gave us an early-mover advantage. The NTMA will continue its investor relations programme in 2014 as we complete the process of market normalisation.

In practice, market normalisation means moving away from the "opportunistic" transactions that characterised our engagement with the markets last year to a scheduled and regular series of bond auctions. The NTMA's working plan for 2014 is to raise, subject to market conditions, a total of around €8 billion. Although the order book for the 10-year bond sale in January amounted to €14 billion, we decided to limit the size of the new bond to €3.75 billion in order to leave capacity for bond auctions later in the year. In that context we announced yesterday that the NTMA plans to raise about €4 billion through a series of bond auctions over the course of 2014 with indicative sizes ranging from €0.5 billion to €1 billion. It is planned to hold one or two auctions per quarter with the first auction to take place on Thursday 13 March.

Investing in Ireland

Aside from the bond markets, a particular priority for the NTMA in 2014 is to complete, subject to the necessary legislative change, the conversion of the National Pensions Reserve Fund into the Ireland Strategic Investment Fund which will invest on a commercial basis to support economic activity and employment in Ireland.

Work on the ISIF business plan is at an advanced stage. Already, in anticipation of the NPRF's transformation into the ISIF we have been working hard to develop a pipeline of potential investments. A number of these have been concluded and as a result, the NPRF now has €1.3 billion invested or committed to areas of strategic importance to the Irish economy including infrastructure, venture capital and long-term financing for SMEs. The most recent of these initiatives is a $100 million joint venture with China Investment Corporation, China's main sovereign investment fund, which will invest in Irish technology companies that have a substantial presence or strategic interest in China, and in Chinese technology companies that have a similar interest in Ireland.

While the ISIF's exclusive Ireland investment mandate represents a significant change of direction from the NPRF, the new ISIF will share one important feature with its predecessor: its investments will be undertaken on a commercial basis. One of the key advantages of the ISIF will be its ability to attract co-investment from domestic and international third parties, such as the China Investment Corporation, who will only put their money to work alongside ours if they have confidence in the commerciality of the investment process. I should add that, while all investments will have to meet the commerciality test, not every investment will have the same expected return, risk profile or time frame.

Before leaving the subject of the NPRF, I wish to return to the matter of overcharging by State Street Bank Europe which we discussed in some detail when I was last before the Committee. While State Street Bank Europe had by then already repaid the overcharged amount of €3.2 million and was no longer providing transition management services to the NPRF, I advised the Committee that the NTMA had unfinished business in terms of the overall relationship with the State Street group of companies and we were awaiting the outcome of the U.K.'s Financial Conduct Authority investigation before deciding our next steps.

On Friday 31 January 2014 the FCA announced its decision to fine State Street UK stg£22.9 million for failings in its transition management business as a result of which the NPRF and five additional clients were deliberately overcharged a total of US$20.2 million. In view of the nature of the failings at State Street identified by the FCA the NPRF terminated its contract with State Street Global Advisors which managed an indexed equity mandate for the NPRF.

Advising on State assets

In September 2011 the Government announced the establishment of NewERA, initially on a non-statutory basis, within the NTMA. The core role of NewERA involves the oversight of the financial performance, corporate strategy, capital and investment plans of the commercial State entities within its remit - and working with stakeholders to develop and structure proposals for investment in energy, broadband, water and forestry to support economic activity. NewERA's role also involves, where requested, advising on corporate finance type issues such as the disposal or restructuring of State assets.

I should stress that NewERA's role and function is advisory in nature: the respective boards remain responsible for the business and activities of the companies that fall within NewERA's remit and policy decisions remain a matter for the relevant Minister and the Government. NewERA has, however, developed, in conjunction with the relevant Departments, a shareholders' expectations framework to aid the alignment of objectives between the State and the relevant commercial State entity in relation to dividends, shareholder returns, policy objectives (as defined by the Departments) and reporting requirements.

NewERA has conducted a range of activities in the areas of corporate finance and governance advice, State asset disposal and restructuring and facilitation of investment in economic infrastructure in its first two years of operation and details of these activities are set out in the briefing note forwarded to the Committee.

Managing claims against the State

Stepping away from the capital markets, the NTMA also performs claims and risk management functions on behalf of the State acting as the State Claims Agency. The SCA has a significant claims portfolio of over 6,000 claims under management with an estimated liability at 31 December 2013 of €1.2 billion.

These are large numbers – as indeed are most of the figures relating to the work of the NTMA – but we are always conscious of the fact that behind these figures are individuals. The nature of its work puts the SCA in the unenviable position of dealing, sometimes within the constraints of the adversarial court system, with distressing cases of personal trauma and loss. In doing so, it seeks to fulfil its statutory duty to represent the interest of the State in a fair and respectful manner.

It is in this context that the State Claims Agency resolves the majority of clinical claims by negotiating a settlement either directly or via mediation, with only 3 per cent of clinical claims ending up in the courts. The SCA views mediation as a preferable alternative to the adversarial courts system, particularly in relation to clinical negligence cases.

Conclusion

Since its establishment in 1990 as a single function debt management agency, Governments have given the NTMA a range of additional responsibilities. In my opening remarks this morning I have touched on three of these but there is also the National Development Finance Agency and the National Asset Management Agency which have their own accountable persons and are not the subject of this morning's agenda.

As a result of the progressive addition of these extra functions over the years the NTMA's current governance structure comprises a number of boards and committees overseeing its work. The legislation to establish the Ireland Strategic Investment Fund and to put NewERA on a statutory footing, provides an opportune moment to streamline and update this unwieldy governance structure. The Government's proposed legislative changes will – based on proposals put forward by the NTMA - establish a single, overarching NTMA Board to oversee all of the NTMA's functions, other than NAMA which will continue to have its own separate governance structure. This Board, to be chaired by Willie Walsh, Chief Executive of International Airlines Group, will greatly assist in the delivery of the NTMA's objectives in an integrated and coherent manner.

I thank the Committee members for your attention and my colleagues and I will be happy to address any questions you have.