Dear Ms Hillier,


Further to my letter of 9 October 2018, and in accordance with the Committee’s recommendations, we have set out the Government’s conclusions on disclosure of investor names in the sale of the Plan 1 loan book. I would also like to take this opportunity to thank the Committee for its report published on 22 November 2018 in respect of the sale of student loans, specifically a tranche of the pre-2012 (‘Plan 1’) income contingent student loans. The Government has given serious consideration to the question of publishing investor names, as well as the overall transparency of the transaction, and UKGI has taken on board the PAC’s concerns and its request for further evidence.

UKGI’s initial advice on disclosure

We recognise that there is a general public interest in transparency. In this instance, the Government believes that the public interest considerations in favour of disclosing are less compelling because the sale arrangements ensure that borrowers whose loans have been sold will not be affected as a result of the sale. Indeed, a stated objective for the Sale was ‘ensuring that a sale does not involve the terms of the loans being altered to the borrowers’ detriment or have a negative impact on HE policy objectives of providing access to education’.

Investors do not own the loans but are simply entitled to receive the cashflows derived from their repayment. Accordingly, investors have no power to change the terms of the loans or the servicing and collection of the loans. Nor will investors have any contact with borrowers. It should be noted that the Government has been transparent that the loans have been transferred to two special purpose vehicles: this was set out in the Government’s report to Parliament for both Sale 1 and Sale 2, as well as in the letter to borrowers informing them that their loans have been sold.
The general public interest in transparency is balanced against the public interest in achieving value for money for the taxpayer. UKGI’s initial advice against disclosing investor names was based on weighing the public interest considerations against the risks to successful execution. The assessment of these risks was based on the professional experience of the UKGI team and the advice of the lead sales advisor and the joint lead managers, who specialise in the underwriting and sale of securities in the asset-backed securities market and are familiar with asset-backed security investors’ customs and practices and their rationale. The judgment was that disclosure of investor names would potentially limit some investors’ desire to consider and make an investment in the loans. Furthermore, UKGI has sought to execute the transaction in line with market standards as far as possible because deviation from established market norms adds further complexity to investors’ decision processes and consequently delay or reduce overall investor demand, as well as reduce the potential buyer base for the loan sale programme as a whole. Competitive tension is key in driving up proceeds, so anything that reduces this runs the corresponding risk of negatively impacting price. This judgement was reinforced during the sale process by concerns voiced by a market leading investor during Sale 1 who cited disclosure amongst their reasons for not investing.

UKGI and DfE have taken on board the Committee’s concerns and request for further evidence, which we now have, following the successful completion of Sale 1 and Sale 2. With the benefit of this evidence, we have tested the judgments made as we commenced the process of marketing to investors in Sale 1 and we have quantified, where possible, the impact of disclosure on value for money.

The recommendations

The Committee recommended in its report on the first sale of income contingent student loans that:

1. **UKGI should review how it balances transparency with any perceived risks to value for money. It should write to us within 6 months with the outcome of its review and include an assessment of the impact of non-disclosure of investors.**

2. **For this first sale, the Department should at a minimum disclose publicly the number and type of investors. It should seek permission from all investors to release their names and do so where possible. For future sales, there must be a presumption to release investor names, unless there is an evidenced and quantified risk to value for money in doing so.**
Framework for considering the Committee’s recommendations

Although the Committee’s recommendations relate primarily to Sale 1, we have considered this issue in the context of the agreed programme of loan sales. In this context, it is important to build trust and credibility with as wide an investor base as possible to ensure that the whole programme is deliverable via repeated sales and to facilitate achieving the best possible price for the taxpayer with respect to each sale. We have considered whether disclosure is in the best public interest, weighing the public benefits of this course of action against its potential to prejudice the commercial interests of Government (and therefore the public) and investors, in common with relevant legislation.

Government’s conclusions

We accept there are public interest considerations when deciding whether to disclose investor names. Nonetheless, based on the evidence and the professional judgement of UKGI and its advisers, the Government has very strong concerns that the full or partial disclosure of investor names would pose a significant risk to our ability to maximise proceeds (and therefore value for money) for the taxpayer in future sales, due to reduced demand.

The price that can be achieved in any given sale depends on a wide variety of factors. For this reason, providing exact quantification of the impacts with full certainty is difficult. It is also worth bearing in mind that a decision to disclose now would be in place for the whole programme and predicting the impact on the dynamics of future sales adds another level of complexity. We do know, though, that competitive tension is key to the Initial Pricing Thoughts we are able to issue to the market, and then to negotiate the final price. Based on our engagement with investors, and the opinions of advisers across the sales, we judge that if Government had mandated disclosure there would have been a considerable risk that a significant number of investors would not have participated.

In reviewing our position, we have taken the data available to us from previous sales along with investor feedback and attempted to quantify the impact as far as possible. For Sale 1, we estimate that the percentage of original demand that would have fallen away ranges between 26% (of the A1 note demand) and 66% (of the B notes demand) with percentages for A2 and X notes in between these two numbers. In monetary terms, this would result in reduced demand of at least £100m per note. This in turn would mean that Government would have needed to either reduce overall size (less proceeds) or drop the price (less proceeds) in reflection of weaker market tension. Furthermore, investors would likely have called into question the viability of an ongoing multi-billion programme of sales if Sale 1 resulted in a significantly smaller transaction than initially envisaged. It is worth noting that even approaching investors on the question of disclosure generated concern and resulted in a number of questions from investors during the Sale 2 process.
Additional data became available to us during Sale 2. One institution, due to concerns Government may disclose investor names following publication of the Committee’s report, explicitly reduced their original orders for the senior notes significantly. We estimate impact on pricing from this decision to be approximately 10 bps for one of the senior notes (£5m less proceeds) due to reduced market tension.

We sought to test the veracity of the feedback we received from investors, and to further understand why investors are less willing to take part in a transaction where their participation would be disclosed. The Government’s conclusion, based on the evidence we received, is that disclosure at any point in time (and certainly during a live sales programme) would pose significant risks to the commercial interests of Government and value for money on behalf of the taxpayer, as a result of reduced market demand. We have sought to understand the commercial rationale for investors’ concerns about disclosure, beyond the fact that it is simply not the market standard. Details of our findings are set out below.

In general, disclosure of an investor’s name would be viewed as revealing details of a commercially sensitive investment strategy. It is the job of an investor to out-perform its competitors, and if competitors know where another investor allocates its money, it could potentially forfeit competitive advantage. Some investors in the complex securities such as income contingent loan securitisations avoid revealing their asset allocation strategy to other market participants, who might seek to freeride efforts to research and value the securities by copying the decision to invest or not invest.

Investors’ reluctance to participate in a transaction where their participation would be disclosed stems also from fundamental aspects of the asset-backed securities market. Asset-backed securities are typically traded in the secondary market through bi-lateral negotiations. The bi-lateral nature of these negotiations means that if it were known that an investor had a large holding and were looking to sell a small amount, it is possible a buyer would offer a low price to hedge their risk of the rest of the holding being sold, reducing price. Even the knowledge of who may be on the other side of the trade and the price the counterparty originally paid could be enough to disturb the secondary market.

An absence of investors willing to buy these assets due to concerns around disclosure would reduce the liquidity of the assets, exerting a downward pressure on price. Lower (expected or actual) liquidity would also mean that even those few investors less sensitive to disclosure of their names may prefer not to buy on expectation that a subsequent sale would become more difficult given the smaller buyer pool. The risk would be particularly acute if future sales have fewer participants, as has been the case for other deals during difficult market conditions.

During the course of our review, we considered a number of possible options for how and what information could be published in order to mitigate the risks set out above, including delaying disclosure by varying lengths of time. Exploration of these mitigations demonstrated a number of substantial risks even from limiting disclosure to consenting investors. Any form of disclosure is likely to impact appetite in the secondary market thereby further reducing the liquidity of this asset class and its attractiveness to investors.
overall. Again, this represents a clear risk to Government's ability to pursue future sales and deliver value for the taxpayer.

It was also highlighted to us in the course of our review that a list of participants will highlight the absence of any large or well-known investors in a transaction. Without further information, this could lead to negative inferences about the underlying credit or likely liquidity of the transaction.

Based on all of the above, the Government has concluded that the public interest lies in not disclosing investor names where the loans are specifically being sold through a securitisation in the asset-backed securities market, via an arrangement that will not affect borrowers. If the Government were to pursue sale of the loans through an alternative route, that is, not through a securitisation, this position would be re-assessed.

Increasing transparency around the transaction

Although the Government has concluded it should not disclose investor names, we have nonetheless taken steps to try and improve the level of information on the sale in the public domain. In particular, we expanded the content and level of detail in our post-sale report to Parliament for Sale 2, which we published on GOV.UK, in addition to laying in Parliament. The new information included: an explanation of the rationale for the Sale objectives; a comparison of the loans included in each sale; developments in the structuring since Sale 1; an explanation of the repayments projection model; a summary of the fiscal impacts of the sale; and, as recommended by the Committee, the type and number of investors. We will continue to consider how we can make improvements to the report for future sales.

We hope the Committee finds that this information addresses their concerns and we trust that investor names will continue to be treated with appropriate confidentiality. I am copying this letter to Jonathan Slater, Permanent Secretary, DfE, Charles Roxburgh, Second Permanent Secretary HM Treasury, Sir Amyas Morse, Comptroller and Auditor General and Richard Brown, Treasury Officer of Accounts.

Justin Manson