



UK Government
Investments

Upper Ground Floor
1 Victoria Street
London
SW1H 0ET

Meg Hillier MP
Chair of the Committee of Public Accounts
House of Commons
London
SW1A 0AA

9 October 2018

Dear Meg,

Sale of pre-2012 income contingent student loans: investor names and Government's retention value

During the Committee's evidence session on the Sale of Student Loans, 10 September, we offered to write to you in confidence with the Government's retention value and names of the investors, which I include at Annexes A and B respectively. I am happy for the Committee to publish this letter on the condition that the annexes are removed and kept confidential.

We accept there are public interest considerations to be taken into account when deciding whether or not to be transparent in these matters, as such I would like to take this opportunity to set out for the Committee in more detail why we believe this information to be commercially sensitive and why we ask that it continues to be treated confidentially. In particular, I would like to emphasise that we have very strong concerns that the full or partial disclosure of the Government's retention value would pose a significant risk to our ability to maximise proceeds for the taxpayer in future sales.

In the case of the retention value:

- We have very strong concerns about the publication of any information that would potentially enable the market to calculate the Government's asset specific risk and therefore its retention value on the loans. When considering whether the sale arrangements will deliver value for money, we assess whether an efficient market exists for this asset and whether the sale is structured and executed in such a way as to promote efficient pricing. By disclosing the retention value or asset specific risk we could significantly harm our ability to maximise proceeds from a sale because the market would be able to assess how much it needs to bid for the loans to slightly exceed the retention value, whether or not this represents an efficient price for the assets. As above, maintaining sufficient competitive tension amongst investors is key. Publishing the Government's retention value, or information about the asset specific risk, would jeopardise competitive tension and our ability to maximise proceeds in future sales and we should avoid jeopardising this.


In the case of investor names:

- It is market standard not to disclose investor orders and allocations in capital market transactions. This is predominantly because investment positions in non-retail funds, as in the case of the student loans sale, are proprietary as portfolio managers do not want to give away their investment positions or trading strategies.
- We are concerned that should some investors decide not to take part in the sale on the basis that their investment would be made public, this could damage our ability to achieve competitive tension and therefore our ability to maximise proceeds and hence value to the taxpayer. At the extreme, potentially we may even fail to attract enough demand to be able to complete the transaction.
- Further, we believe the public interest considerations in favour of disclosing are less compelling in this instance because the sale arrangements ensure that borrowers whose loans have been sold, will not be affected as a result of the sale, as noted in your opening remarks to the Committee. Investors have not purchased the loans themselves, the sold loans have been transferred to a new independent English-domiciled company 'Income Contingent Student Loans 1(2002 – 2006) Plc', who will retain ownership of the loans for the duration. The repayment terms will not change as a result of the sale and HMRC and the Student Loans Company are continuing to provide the same service they did before the loans were sold. Income Contingent Student Loans 1(2002 – 2006) Plc and investors are not able to contact people directly and have absolutely no right to change any of the features of the loans.

The UKGI team, with our advisors, are already testing investors' sensitivity on the question of transparency.

I hope the Committee finds that this information addresses their questions and I trust that it will be treated with appropriate confidentiality. I am copying this letter to Jonathan Slater, Permanent Secretary Department for Education, Charles Roxburgh, Second Permanent Secretary HM Treasury, Sir Amyas Morse, Comptroller and Auditor General and Richard Brown, Treasury Officer of Accounts.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Justin Manson', written in a cursive style.

JUSTIN MANSON

DEPUTY CHIEF EXECUTIVE

UK GOVERNMENT INVESTMENTS