



Sovereign Bonds

Oliver Whelan

Director – Funding & Debt Management
National Treasury Management Agency



National Treasury Management Agency

Sovereign Bonds



- At the request of the pensions industry and following consultations with stakeholders the Government enacted legislation – the Social Welfare and Pensions Act 2010 – to facilitate the purchase of Irish government bonds by pension funds and annuity providers.
- Funding Standard requirement.



Sovereign Bonds

- NTMA will make available the types of bonds which will meet the needs of the pensions industry and the insurance companies who provide pension annuities.





NTMA Bonds

- Possible bond issues
 - coupon only bonds
 - zero coupon bonds
 - Irish inflation (CPI) linked bonds





NTMA Bonds

Coupon only bonds:

- Payment of annual coupon with no principal repayment at maturity.
- No withholding tax.
- Available through any broker registered with Irish Stock Exchange.





NTMA Bonds

Coupon only bonds:

- Buy and hold.
- No need to increase individual bonds to size normally required for secondary market liquidity purposes.
- Can have multiple separate issues with different ISIN codes etc.





NTMA Bonds

- Zero coupon bonds.
- No appetite for issuing long dated zero coupon bonds.
- Deep discount at issue has negative implications for Government debt which is measured in nominal terms for EU and domestic purposes.





NTMA Bonds

- Irish inflation linked bonds
- Based on Irish consumer price index (CPI), not on HICP.
- Real yield ?



Pension Fund Trustees



- Can benefit from Irish (or Euro) yields in discounting liabilities to extent that bonds are purchased.
- Can purchase annuities or the underlying bonds.
- Can purchase annuities directly for individuals or within the scheme.



Yields



EU-IMF Programme of assistance

- Assumes €67.5 billion borrowings with 7.5 year average life.
- Original interest rate assumption of 5.8% is universally acknowledged to be too high.
- Reduction of 1% acknowledged by EU as justified.





Yields

- Current yields in secondary market are at distressed levels.
- Government has not borrowed at these yields which are unsustainable.
- Bonds will be issued for the pensions industry under the normal borrowing powers of the Minister for Finance – Section 54 of the Finance Act 1970.





10 YEAR BOND YIELDS

	10 Year	Spread over Germany
Germany	3.19%	-
France	3.53%	0.34%
Belgium	4.07%	0.88%
Spain	5.16%	1.97%
Portugal	7.37%	4.18%
Ireland	9.51%	6.32%

Source: Bloomberg 18 March 2011





30 YEAR BOND YIELDS

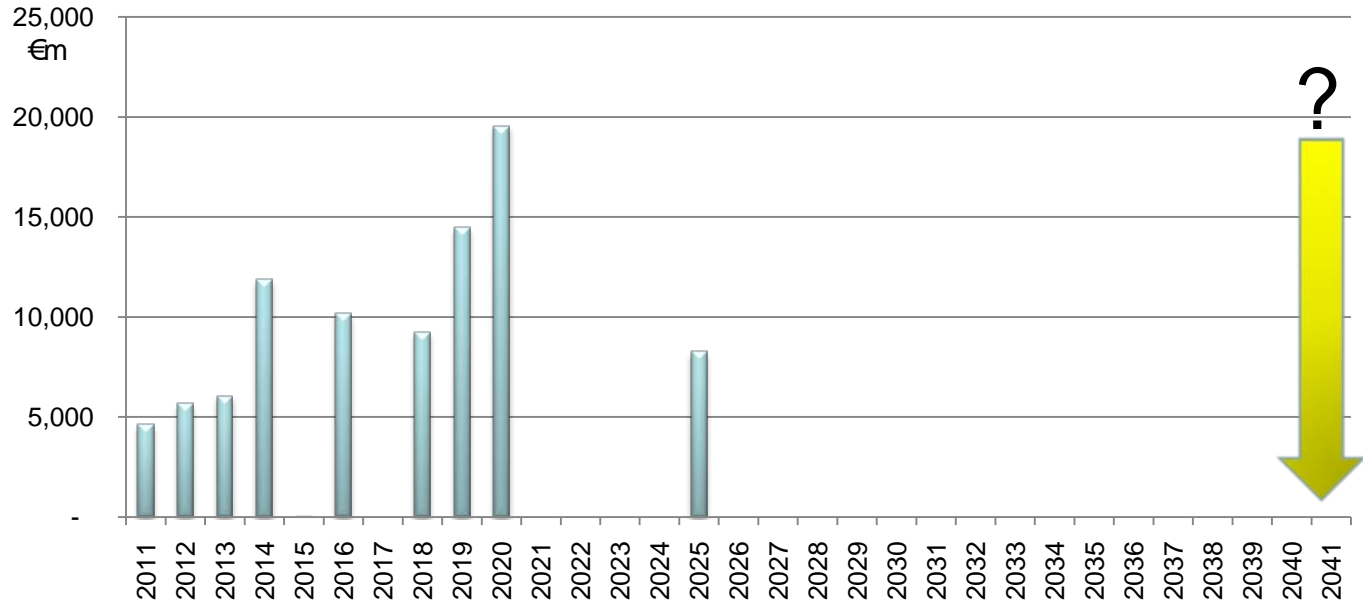
	30 Year	Spread over Germany
Germany	3.66%	-
France	4.06%	0.40%
Belgium	4.52%	0.86%
Spain	5.90%	2.24%
Portugal	6.69%	3.03%
Ireland	?	

Source: Bloomberg 18 March 2011





Irish Government Bonds Maturity Profile



National Treasury Management Agency



Appendix

Legislation

Social Welfare and Pensions Act 2010
amended the Pensions Act 1990





Social Welfare and Pensions Act 2010: Pensions Act 1990 Section 53B(1)

The Board may approve a policy or contract of assurance where it is satisfied that the policy or contract secures the benefits payable –

a) to the scheme in respect of a person who under the scheme –

(i) is receiving benefits, or

(ii) has reached normal pensionable age,

or





Pensions Act 1990 Section 53B(1)

- b) to or in respect of a person who under a scheme –
 - (i) is receiving benefits, or
 - (ii) has reached normal pensionable age





Pensions Act 1990 Section 53B(3)

A policy or contract may include a policy or contract which is referenced by –

- a) Securities issued under section 54(1) of the Finance Act 1970 and known as bonds, or
- b) Securities issued under the laws of a Member State (other than the State) that correspond to securities referred to in paragraph (a).





Pensions Act 1990 Section 59(3)

The trustees of a scheme may at any time, notwithstanding anything contained in the rules of the scheme and without the consent of the members –

- a) Make payments on behalf of the scheme to a policy or contract of assurance whereby all sums payable under such policy or contract will as and when received by the trustees be held by them upon trust for the purposes of the scheme.





Pensions Act 1990 Section 59(3)

- b) Discharge the liability of the scheme for some or all of the benefits payable to or in respect of a person –
 - (i) receiving benefits under the scheme, or
 - (ii) who has reached normal pensionable age,by making on behalf of that person, one or more than one payment to a policy or contract of assurance





Pensions Act 1990 Section 59(3)

- (4) If, in any proceedings brought against a trustee of a scheme for breach of trust it appears to the court that the trustee is or may be liable in respect of the breach of trust but that he or she acted honestly and reasonably and that having regard to all the circumstances of the case he or she ought fairly to be excused for the breach of trust, the court may relieve him or her in whole or in part from his or her liability





THANK YOU
Oliver Whelan, NTMA



National Treasury Management Agency