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Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

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Mr John McGuinness TD
Chairman
Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach
Leinster House
Kildare Street
Dublin 2
D02 XR20

3 August 2018

Dear Deputy McGuinness

I refer to your letter of 18 July 2018 (and enclosed meeting transcript) requesting a response to the matters raised in the course of the Joint Committee meeting on 28 June 2018, in particular, the schedule for the disposal (or "destruction") of Promissory Note Bonds.

In 2010, the Promissory Notes were issued by the government to recapitalise Anglo Irish Bank (and Irish Nationwide Building Society - INBS) in lieu of cash, following the substantial write down in the value of assets on its balance sheet. Anglo Irish Bank (and INBS) subsequently used the Promissory Notes as collateral to borrow from the Central Bank in the form of Emergency Liquidity Assistance (ELA).

Following the resolution of Irish Bank Resolution Corporation, the Promissory Notes were exchanged for floating rate notes (FRNs) and formed, along with fixed rate bonds and NAMA bonds, what became known as the Central Bank's 'Special Portfolio'. [12]

The Central Bank's policy has been, and continues to be, to dispose of the assets within the Special Portfolio as soon as possible, provided conditions of financial stability permit.

The NAMA bond holdings have been redeemed and the Central Bank sold its €3.46 billion holding of the 2025 fixed rate government bond by early 2015, leaving only the FRNs in the Special Portfolio.

At the time of the IBRC resolution, the Central Bank stated that it would dispose of the government bonds as soon as possible, provided conditions of financial stability permit. It also indicated a minimum schedule of €0.5 billion up to the end of 2014, €0.5 billion per annum up to 2018, €1 billion per annum for each of the next five years and €2 billion per annum after that. The Central Bank began selling its holdings of FRNs in December 2014 and has disposed of €12 billion (to the NTMA) to date. The remaining assets now consist of €13 billion of FRNs with maturities ranging from 2049 to 2053.

The pace of disposals reflects the improvement in financial conditions since early 2013. When FRNs are sold, the reduction in the nominal value of the Central Bank's assets is matched by a corresponding reduction in the monetary liabilities of the Central Bank. This is intrinsic to the principles of ELA: the expansion in monetary liabilities at the time of granting ELA must be unwound as soon as is feasible if the monetary stance of the eurosystem is to be unaffected.

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[1] The name given to the entity formed in 2011 by the court-mandated merger of the state-owned banking institutions Anglo Irish Bank and Irish Nationwide Building Society.
[2] Information on the Special Portfolio acquired following the liquidation of IBRC is contained in a FAQ section on the Central Bank of Ireland's website FAQs on Special Portfolio.

I trust that this response addresses the issues raised during the June meeting specifically in relation to the schedule for the disposal of Promissory Notes.

Yours sincerely

Philip Lane