Statement by Peter Bunting on the 2004 transaction between the Ministry of Finance and DBG

The Report of the Contractor General contains no finding of any "sweetheart" element to this transaction. No nepotism. No corruption. There is nothing in the Report to support the defamatory allegations made against me in 2008 behind the cloak of parliamentary privilege.

I also wish to express appreciation for the concern the Contractor General raised about unsolicited proposals. There are both pros and cons to the current rules which allow unsolicited proposals. It is therefore an issue which would benefit from further debate.

For the record, I wish to state the basic facts of the 2004 transaction:

(a) In March 2004 the financial markets were aware that Jamaica was in danger of missing its fiscal target. This would have negative consequences for the country's credit rating and the terms on which the country could raise funds in the local and international capital markets. This would set Jamaica back, and bring more hardship on the people.

(b) DBG conceived and developed a financial solution by which the Government's fiscal deficit target could be met, by bringing forward into the current fiscal year certain cash flows which were spread out over several years into the future.

(c) Those cash flows (or "receivables") were amounts publicly known to be payable by AIC to the Government as the deferred portion of the purchase price for the NCB shares that AIC had bought. The "discount" referred to in the Report is a basic financial concept – that \$100 due in the future is worth less than \$100 paid today. To work out what sum, when paid to today, is financially equivalent to cash flows payable in the future, the future cash flows are "discounted" by applying the prevailing interest rate in the market. The "discount" rate makes the value of the sum paid now equivalent to the value of the future cash flows it purchases. It doesn't mean that the cash flows were sold by the Ministry for a cheaper price than they were worth.

(d) The transaction was a large one, over \$2 Billion. In addition to designing a fairly complex deal structure and packaging the cash flows into marketable securities, DBG raised the money in the market to purchase the cash flows from the Government, all in a relatively tight timeframe. For doing this, DBG charged a fee, which was negotiated with the Ministry officials – in fact, the amount which was finally agreed was less than the fee DBG had originally proposed.

(e) Most of the funding for this transaction (about 70%) was raised by DBG from private sector investors, and about 30% of it came from two public sector entities that have large cash balances to invest in carrying out their statutory functions (the NIF and the NHT).

(f) As the transaction approached consummation, DBG approached all the various potential investors to seek their investment in the transaction. Of necessity, and in accordance with standard capital market practice for large transactions, this took place in advance of DBG "signing on the dotted line" and committing this large block of funds to the Government.

On the points raised in the Contractor General's Report, I wish to make the following observations:

1. It was not a breach of the Government's procurement rules, or otherwise illegal or irregular, for DBG to bring this creative financial solution to the Government on an unsolicited basis. Indeed, DBG's financial structuring innovativeness and distribution capacity were the main ways that DBG differentiated itself in the marketplace. Therefore, from a commercial standpoint, it would have been quite unethical for the Government to take DBG's creative idea and give its competitors in the financial industry the chance to capitalize on it.

2. It is standard practice for a financial institution that is arranging a transaction which is too large for it to fund from its own resources, to approach potential investors before the deal closes to invite them to participate by investing in the transaction. It is by testing the market in that way, that the institution knows it can enter into a

firm funding commitment to the client (in this case, the Government) when the transaction closes. Where the financial institution is an investment bank, it is normal for the institution to on-sell the investment to investors at a higher price than it has bought it – that is how it makes a profit and stays in business.

3. While the Ministry routinely handles "plain vanilla" local debt issuances on its own, it did not have (and still does not have) the internal capacity to package contractual cash flows into marketable securities, and sell them to investors in the public and private sectors. The Ministry has never done a transaction like this on its own, and external expertise had to be engaged to execute the 2004 deal. The practice continues - the Ministry hired Citibank to execute the JDX on its behalf in 2009-10.

4. The issue that the OCG has referred the Attorney-General/Solicitor General is whether, under the National Insurance Act, the NIF ought to have sought Ministerial approval before investing in the transaction. Since the Government guaranteed the cash flows that it was selling, the NIF may have regarded the investment as low risk and not one which required specific Ministerial approval. Whether the NIF was correct in doing so is something which the OCG wishes to be clarified. While this is an important internal procedural matter to guide the NIF going forward, it does not reflect in any way on the Minister whose approval was not sought, nor on DBG as a private sector entity acting at arm's-length with a public sector investment institution.

Peter Bunting, M.P.
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