

DEBT MANAGEMENT OFFICE REMIT FOR 2002-03

A) Gilt Remit

Objectives

The Debt Management Office (DMO), an Executive Agency of HM Treasury, has been given the following objectives in respect of Government debt management:

- to meet the annual remit set by HM Treasury Ministers for the sale of gilts, with high regard to long-term cost minimisation taking account of risk;
- to advise Ministers on setting the remit to meet the Government's debt management objectives and to report to Ministers on the DMO's performance against its remit, objectives and targets;
- to develop policy on and promote advances in new instruments, issuance techniques and structural changes to the debt markets that will help to lower the cost of debt management, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange, and other bodies; and to provide policy advice to Treasury Ministers and senior officials accordingly;
- to conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts;
- to provide, including in liaison with the Bank of England and CRESTCo, a high quality efficient service to investors in government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance;
- to contribute to HM Treasury's work on the development of the strategy for the debt portfolio; and
- to make information publicly available on the debt markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of debt issuance.

Quantity of gilt sales

2. The DMO, on behalf of the Government, will aim for gilt sales of approximately £23 billion in 2002-03.

Pace of gilt sales

3. The DMO will aim to sell gilts at a broadly even pace through the year. Within-year seasonal fluctuations in the pattern of central government expenditure and revenue will be met by other financing means governed by the Exchequer Cash Management Remit.

Amount and maturity mix of index-linked gilt issuance

4. Over 2002-03, the DMO plans to sell £4.5 billion (cash), just under twenty per cent of its gilts sales, in index-linked stocks.

5. Five auctions of index-linked stocks are planned in 2002-03. Issuance will be directed at medium- and longer-dated maturities (i.e. stocks dated 2009 and longer).

6. To ensure the medium-term viability of the index-linked auction programme, the authorities remain committed to a minimum supply of £2.5 billion (cash) of index-linked stocks for the foreseeable future.

Amount and maturity mix of conventional gilt issuance

7. Seven auctions of conventional stocks are planned in 2002-03; three in the long (15 years and over) maturity area and two each in the medium (7-15 years) and short (1-7 years) maturity areas.

8. HM Treasury will consider accommodating reductions in the forecast 2002-03 financing requirement by: adjusting the DMO's net cash position (by up to £3 billion); reducing planned long maturity conventional gilt sales (by up to £2.5 billion); or reducing planned index-linked gilt sales (by up to £0.75 billion).

9. Increases in the financing requirement will be accommodated by a combination of: accommodating the increase first in the DMO's net cash position (by up to £1 billion); increasing planned issuance of short maturity conventional gilts (by up to £2.5 billion); or increasing planned sales of medium maturity conventional gilts (by up to £2.5 billion).

10. Specific decisions would be made in the light of circumstances.

Buy-backs of debt

11. The DMO has no plans for a programme of reverse auctions.

Method of issuance of gilts

12. Auctions will constitute the primary means of issuance of all gilts (conventional and index-linked). The DMO plans to hold seven auctions of conventional gilts and five auctions of index-linked gilts. All auctions will be single auctions held on the day indicated.

13. Each outright auction of conventional gilts is planned to be for between £1½ billion and £3 billion (cash) of stock on a competitive bid-price basis. Each auction of index-linked gilts will be for between £½ billion and £1¼ billion (cash) on a uniform-price basis.

Gilt Auction Calendar 2002-03

Date		Type
24 April	2002	Index-linked
29 May	2002	Conventional
25 June	2002	Conventional
10 July	2002	Index-linked
24 July	2002	Conventional
25 September	2002	Index-linked
22 October*	2002	Conventional
24 October*	2002	Index-linked
27 November*	2002	Conventional
22 January	2003	Index-linked
26 February	2003	Conventional
26 March*	2003	Conventional

**Subject to confirmation following the Chancellor's decisions on the Budgetary timetable.*

14. The programme of conventional and index-linked gilt auctions may be supplemented between auctions by official sales of stock by the DMO "on tap". Taps of stocks will be used only as a market management instrument in conditions of temporary excess demand in a particular stock or sector. The DMO would only contemplate taps of stocks in exceptional circumstances.

15. After an auction, the DMO will generally refrain from issuing stocks of a similar type or maturity to the auction stock for a reasonable period. Such stock will only be issued if there is a clear market management case.

16. For the purposes of market management, the DMO may create and repo out stock in accordance with the provisions of its Standing Repo Facility launched on 1 June 2000.

In-year consultation and announcements on auctions

17. Towards the end of each calendar quarter, the DMO will publish, with the agenda for the consultation meetings with gilt market participants, details of progress to date with the gilt issuance programme, including any changes to the Government's financing requirement and any changes to the gilts auction programme. The DMO will then consult Gilt-edged Market-Makers and representatives of major End Investors on the auction programme for the following quarter and any other issues that may arise. Following that consultation, at the end of the quarter, the DMO will announce plans for the auctions scheduled for the coming quarter. For each auction, this will indicate the stock to be auctioned or, where relevant, the approximate maturity of a new stock.

18. The auction plan for the first quarter of will be announced at 3:30 p.m. on 28 March 2002.

19. Full details of these, and subsequent, auctions will be announced at 3.30p.m. on the Tuesday of the week preceding the auction.

Coupons

20. As far as possible, coupons on new issues of gilts will be set to price the stock close to par at the time of issue.

Buy-ins of short maturity debt

21. The DMO will have responsibility for buying-in stocks close to maturity to manage Exchequer cash flows.

Conversions and switch auctions

22. In order to build up the pool of benchmark stocks further, the DMO may in future make offers for the conversion of unstrippable stocks into benchmarks of similar maturity during 2002-03. The DMO may consider converting out of stocks with up to £5.5 billion (nominal) in issue. Such offers may be supplemented by switch auctions into benchmark stocks during 2002-03. Details of any future switch auction stocks will be announced at the same time as the end-

quarter announcements of forthcoming outright auctions.

Reviews to the remit

23. The remit, and in particular the number of auctions and the allocation between conventional maturity bands and index-linked, may be varied during the year in the light of substantial changes in the following:

- the Government's forecast of the gilt sales requirement;
- the level and shape of the gilt yield curve;
- market expectations of future interest and inflation rates; and
- market volatility.

24. Any revisions to this remit will be announced.

B) Exchequer Cash Management Remit

Objective

The DMO's primary objective in carrying out its Exchequer cash management operations will be:

"to offset, through its market operations, the expected cash flow into or out of the National Loans Funds. It aims to do so in a cost-effective manner, taking account of risk."

The DMO aims to:

- manage cash flows without influencing the level of short-term interest rates;
- take account of the operational requirements of the Bank of England; and
- take account of its impact on the efficiency of the sterling money market.

2. The DMO will carry out its objective primarily by a combination of:

- weekly Treasury bill tenders;
- bilateral market operations with DMO counterparties; and
- ad hoc tenders of Treasury bills (and repo or reverse repo transactions).

3. The DMO and the Bank of England will work together to avoid clashes in the delivery of their respective objectives in the money markets. The DMO will not take speculative positions on interest rate decisions by the Bank of England nor hold operations which by their nature or timing in the day could be perceived to clash with the Bank's open market operations.

Treasury bill tenders

Timing and schedule of announcements

4. The DMO will hold Treasury bill tenders on the last business day of each week. When announcing the results, the DMO will also announce the quantity and maturity of Treasury bills on offer in the tender in the following week and may give the maturity and indicative size of any ad hoc tenders in the following week.

5. Following the final tender at the end of each quarter, the DMO will issue a notice outlining the maturities of Treasury bills likely to be available via tenders over the following quarter.

Maturities

6. The DMO's Treasury bill tenders in 2002-03 may be of the following maturities:

- one month (approximately 28 days);
- three months (approximately 91 days);
- six months (approximately 182 days); and
- twelve months (approximately 364 days).

7. The DMO expects to begin issuing six-month Treasury bills in 2002-03, alongside one- and three-month bills.

Level of stocks

8. The DMO will manage Treasury bill transactions with a view of running down the stock of bills in months of positive cash flows and increasing it in months of higher net expenditure. The DMO will aim to build up the stock of Treasury bills in market hands to £14 billion by end-March 2003.

Interaction with Bank of England's money market operations

9. The DMO may also issue Treasury bills to the market to assist the Bank of England in its management of the sterling money markets. In response to a request from the Bank, the DMO will add a specified amount to the size(s) of the next bill tender(s) and deposit the proceeds with the Bank, remunerated at the weighted average yield(s) of the respective tenders. The amount being offered to accommodate the Bank's request will be identified in the DMO's weekly bill tender announcement. Treasury bill issues at the request of the Bank will be identical in most respects with rest of the stock of Treasury bills outstanding.

Ad hoc tenders

10. The DMO may also issue short maturity Treasury Bills (up to 28 days) at ad hoc tenders. The objective of such tenders will be to provide additional flexibility for the DMO in smoothing Exchequer cash flows. Treasury bills issued in ad hoc tenders will be identical in every respect with those issued by weekly tenders.

11. In addition to issuing Treasury bills, the DMO may also execute repo or reverse repo transactions at ad hoc tenders. For such transactions, collateral used would either be gilts or Treasury bills.

12. The DMO may also hold ad hoc tenders for buying in gilts (or gilt strips) with a residual maturity of less than six months.

Timing of ad hoc tenders

13. The DMO will usually announce its intention to hold ad hoc tenders in the weekly announcement of the tender result. Such announcements will indicate the day(s) of the following week on which ad hoc tender(s) are expected to be held, together with a guide to the expected maturity and size.

14. The precise details of the maturity and nominal on offer will be announced at the opening of the offer on the morning of the tender (usually at either 8:30 a.m. or 10:00 a.m.).

Bilateral operations with the market

15. In pursuit of its cash management objectives, the DMO expects to trade on a daily basis with its counterparties across a range of instruments. The full range of instruments is set out in the DMO's Exchequer Cash Management Operational Notice.

16. The DMO's bilateral operations may comprise of:

- purchase from the market for future resale (reverse repo);
- sale to the market for future repurchase (repo);
- outright sale and purchase of gilts, Treasury bills and eligible bills, certificates of deposit, commercial paper, selected bank bills and other short-term debt issued by high quality issuers, including supranationals and foreign governments;
- unsecured cash borrowing and lending with its counterparties; and
- short-term foreign currency swaps, Forward Rate Agreements (FRAs) and interest rate futures may also be used to manage foreign currency and interest rate exposures. All foreign currency exposure will be hedged back into sterling.

17. The DMO would give prior notice to the market if it planned to introduce additional instruments for use in its

bilateral operations.

18. Other than gilts and Treasury bills, collateral used in the repo and reverse repo transactions may include selected euro-denominated government securities, eligible bank bills, supranational sterling and euro-denominated securities. In carrying out these transactions, the DMO may make use of those of its own holdings of marketable gilts and of funds managed by National Debt Office (NDO) for collateral purposes.

DMO cash collateral

19. If required, in order to aid the DMO in the efficient execution of their cash management operations, HM Treasury may issue gilts and Treasury bills to DMO for collateral purposes.