

THE DEBT MANAGEMENT OFFICE REMIT FOR 2000-01 (as published in the Debt Management Report on 21 March 2000).

A) GILT REMIT

Objectives

1. 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 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 publically 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 Debt Management Office, on behalf of the Government, will aim for gilt sales of approximately £12¼ billion in 2000-01.

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, mainly changes to the weekly Treasury bill tender.

Amount and maturity mix of index-linked gilt issuance

4. Over 2000-01, the DMO plans to sell £3.5 billion (cash), about 30 per cent of its gilt sales in index-linked stocks.
5. Four auctions of index-linked stocks are planned in 2000-01. 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. Four auctions of conventional stocks are planned in 2000-01; three in the long (15 years and over) maturity area and one in the medium (7 - 15 years) area.
8. HM Treasury will consider accommodating reductions in the forecast 2000-01 financing requirement will be accommodated by: pre-financing foreign currency debt maturing in 2001-02 (up to £3.8 billion) and 2002-3 (up to £1.9 billion); some repayment of its Ways and Means facility at the Bank of England (up to £2 billion); and reducing the assumed Treasury Bill stock at end-March 2001 (up to £2 billion).
9. Increases in the financing requirement will be accommodated first by scaling back the buy-back programme and second by increasing the stock of Treasury bills by up to £5 billion.
10. For 2000-01, there are no plans to meet the financing requirement through sales of gilts with a maturity of less than 3 years, but the DMO reserves the right to tap sub-3 year gilts for market management purposes.

Buy-backs of Gilts

11. The DMO may offer to buy-back from the market a total of £3.5 billion (cash) of debt in 2000-2001. At least £2.5 billion will be through reverse auctions of non-strippable conventional gilts with over £1 billion (nominal) in issue and maturities in calendar years 2003 to 2008. The DMO will consult the market about the methodology to be adopted in any such auctions and publish its conclusions before launching any buy-backs.

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 four auctions of conventional gilts and four auctions of index-linked gilts on the calendar set out below. All auctions will be single auctions held on the day indicated.

GILT AUCTION CALENDAR 2000-01

DATE	TYPE
Wednesday 3 May 2000	Index-Linked
Wednesday 24 May	Conventional
Wednesday 26 July 2000	Index-linked
Wednesday 27 September 2000	Conventional
Wednesday 25 October 2000*	Index-linked
Late November 2000/early December 2000*	Conventional
Wednesday 24 January 2001	Index-linked
Wednesday 28 March 2001*	Conventional

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

13. Each 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 £0.5]billion and £[.25 billion (cash) of one stock on a uniform price basis.

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 its response to the consultation exercise on special repo operations dated 22 February 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 end-investors on the auction programme for the following quarter, the auction date, 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 2000-01 will be announced at 3.30pm on Wednesday 31 March 2000.

19. Full details of these, and subsequent, auctions will be announced at 3.30pm 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 envisages making offers for the conversion of unstrippable stocks into benchmarks of similar maturity during 2000-01. The programme of conversion offers may be supplemented by switch auctions into benchmark stocks during 2000-01. In particular the DMO will look closely at the merits of further switches out of the 8% Treasury 2015 into longer maturity stocks. 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. This remit, and in particular the timing of auctions and the allocation between 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.

THE DEBT MANAGEMENT OFFICE REMIT FOR 2000-01

B) EXCHEQUER CASH MANAGEMENT REMIT: 2000-2001

Objective

1. 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 Fund (NLF) on every business day; and to do so in a cost effective manner. In doing so the DMO should:

- balance cost and risk in its choice of strategies;
- manage cash flows without influencing the level of short-term interest rates.

2. The DMO should also take account of:

- the operational requirements for the Bank of England for implementation of its monetary policy objectives;
- its impact on the efficiency of the sterling money market.

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

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

4. 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 nor hold operations which by their nature or timing in the day could be perceived to clash with the Bank's open market operations.

I) Structured Treasury bill tenders

Timing and schedule of announcements

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

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

Maturities

7. The DMO's structured Treasury bill tenders in 2000-01 may be of the following maturities:

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

8. The DMO expects to give priority to fully establishing the shorter maturities before introducing the longer maturity instruments.

Level of stocks

9. The DMO will manage Treasury bill transactions with a view to running down the stock of bills in months of positive cash flows and increasing it in months of higher net expenditure. Once the Treasury bill stock rises above £5 billion outstanding, a minimum stock of £5 billion outstanding is expected to be maintained thereafter.

Interaction with Bank of England's money market operations

10. 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 structured 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 structured bill tender announcement. Treasury bills issued at the request of the Bank will be identical in all respects with the rest of the stock of Treasury bills outstanding.

II) Bilateral operations with the market

11. In pursuit of its cash management objectives, the DMO expects to trade on a daily basis with its counterparties across a range of instruments.

12. The DMO's bilateral operations may comprise:

- 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 ;
- unsecured cash borrowing and lending with its counterparties.

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

14. 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, or funds managed by NILO, which are maintained for collateral purposes. If required, HM Treasury may issue gilts or Treasury bills to the DMO for collateral purposes.

III) Ad hoc tenders

15. 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 structured tenders.

16. 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.

17. 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

18. The DMO will usually announce its intention to hold ad hoc tenders in the weekly announcement of the structured 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.

19. 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 or 10.00am). The DMO may hold ad hoc tenders for the same maturity date on successive business days. Ad hoc tenders will be open for 15 minutes.

20. The DMO may hold up to two ad hoc tenders per day. The DMO will not hold a second ad hoc tender on gilt auction days or Monetary Policy Committee decision days.

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