

THE DEBT MANAGEMENT OFFICE REMIT FOR 2004-05

A) GILT REMIT

Objectives

I The UK 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 due 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 financing, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange, and other bodies and to provide policy advice to HM 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 medium-term 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 £48.0 billion in 2004-05.
- 3** The expected timing of gilt sales is set out in the auction calendar below.

Table 9: Gilt Auction Calendar 2004-05

Date	Type
22 April 2004	Conventional
28 April 2004	Index-linked
20 May 2004	Index-linked
25 May 2004	Conventional
27 May 2004	Conventional
17 June 2004	Conventional
24 June 2004	Index-linked
15 July 2004	Conventional
22 July 2004	Conventional
28 July 2004	Index-linked
12 August 2004	Conventional
16 September 2004	Conventional
28 September 2004	Index-linked
14 October 2004	Conventional
26 October 2004*	Index-linked
28 October 2004*	Conventional
18 November 2004*	Conventional
24 November 2004*	Index-linked
1 December 2004*	Conventional
12 January 2005	Index-linked
27 January 2005	Conventional
2 February 2005	Index-linked
24 February 2005*	Conventional
2 March 2005*	Index-linked
24 March 2005*	Conventional

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

Amount and maturity mix of index-linked gilts issuance

- 4** Over 2004-05, the DMO aims to sell £8.0 billion (cash) in index-linked stocks.
- 5** 10 auctions of index-linked stocks are planned in 2004-05. Issuance will be directed at stocks dated 2011 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 gilts issuance

7 15 auctions of conventional stocks are planned in 2004-05; 6 in the long (15 years and over) maturity area, 4 in the medium (7-15 years) and 5 in the short (1-7 years) maturity area.

Contingencies

8 Any change in the financing requirements will be met by increasing (reducing) planned gilt sales broadly in proportion to the splits planned in the Remit. Planned sales of Treasury bills may also be revised. Specific decisions will be taken subject to considerations about debt portfolio objectives and evolving market conditions.

Buy-backs of debt

9 The DMO has no plans for a programme of reverse auctions in 2004-05.

Method of issuance of gilts

10 Auctions will constitute the primary means of issuance of all gilts (conventional and index-linked). The DMO plans to hold 15 auctions of conventional gilts and 10 auctions of index-linked gilts. All auctions will be single auctions held on the day indicated.

11 Each outright auction of conventional gilts is planned to be for between £1.5 billion and £4.0 billion (cash) of stock on a competitive bid-price basis. Each auction of index-linked gilts will be for between £500 million and £1.25 billion (cash) on a uniform price basis.

12 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.

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

14 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

15 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.

16 The auction plan for the first quarter of the financial year will be announced at 3:30pm on 31 March 2004.

17 Full details of these, and subsequent auctions, will generally be announced at 3:30p.m. on the Tuesday of the week preceding the auction.

Coupons

18 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

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

Conversions and switch auctions

20 In order to build up the pool of benchmark stocks further, the DMO may make offers for the conversion of non-strippable stocks into benchmarks of similar maturity during 2004-05. 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 2004-05. The DMO may consider using switch auctions to help smooth the redemption profile or to help smooth the market impact of large changes in relevant gilt indices. 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

21 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.

22 Any revisions to this remit will be announced.

B) EXCHEQUER CASH MANAGEMENT REMIT

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

Treasury bill tenders

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 structured tenders over the following quarter.

Maturities

6 The DMO's Treasury bill tenders in 2004-05 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).

Level of stocks

7 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.

Interaction with the Bank of England's money market operations

8 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 structured bill tender announcement. Treasury bill issues at the request of the Bank will be identical in most respects with the rest of the stock of Treasury bills outstanding.

Ad hoc tenders

9 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.

10 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.

11 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

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

13 The precise details of the maturity and nominal amount 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

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

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

16 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 and 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.

DMO cash collateral

17 If required, in exceptional circumstances, gilts or Treasury bills may be issued to the DMO for collateral purposes in order to aid the DMO in the efficient execution of its cash management operations.