

THE UK DEBT MANAGEMENT OFFICE'S REMIT 2015-16: MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 20 JANUARY 2015

The Economic Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and of UK-based gilt investors on 20 January 2015. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2015-16.

The gross financing requirement for 2015-16 is currently projected to be around £171 billion. The DMO's financing remit for 2015-16 will be published alongside Budget 2015 on 18 March 2015.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2014-15.

The main points arising at the meetings are summarised below.

Investors:

Where a specific view was expressed most attendees thought that the broad shape of the current remit should be carried forward into the next financial year. Stability of approach was seen as a virtue in current market conditions.

The strength of demand for index-linked gilts for liability hedging purposes was mentioned by some along with suggestions that the proportion of index-linked issuance might be increased modestly. It was also suggested that greater emphasis might be given to the 30-year area of the real curve. There were mixed views on the desirability of and speed of introduction of future CPI (or CPIH) linked gilts.

In terms of conventional issuance, some attendees cited the importance of maintaining liquidity in the short area of the curve. The impact of rising redemption totals was seen as potentially impacting this – as well as ever lengthening the maturity of the portfolio – which could add to overall volatility.

A number of attendees suggested that in future less emphasis should be given to syndications and instead there should be greater reliance

on frequent and larger auctions. Those who held this view noted that while liquidity improved around syndications it did so at the expense of other parts of the year. Others, however, welcomed the role of syndications as liquidity events and providing larger amounts of long-dated and index-linked gilts.

Some attendees also welcomed the use of mini-tenders and suggested they might be used more frequently to address inter-year liquidity events. There were isolated calls for the re-introduction of Floating Rate Notes.

GEMMs:

It was generally accepted that the current remit had worked well during a period of market volatility and uncertainty and that these characteristics were likely to persist. It was felt, therefore, that continuity of approach in delivering the remit for 2015-16 would be appropriate but with some changes at the margin suggested.

Most suggested that relatively small increases in index-linked and long conventional gilts would be appropriate (primarily at the expense of short and medium conventional gilts). A number of attendees also suggested that this might be accomplished via an increase in the number of syndications to five or six (including quarterly syndications of index-linked gilts). It was suggested that this might spread the increased liquidity associated with syndications more evenly across the year.

There were also a number of suggestions that the size of both auctions and syndications could be increased.

A number of attendees referred to the usefulness of flexibility in the remit to help manage market volatility in-year, with an increased role suggested for mini-tenders suggested by some (implying an increase in the size of the programme).

Treasury bills were also seen as providing flexibility and most GEMMs recommended a further planned increase to the stock of bills in 2015-16.

- **Other business**

The Economic Secretary referred to the DMO's planned intention, in due course, to withdraw from publishing end of day GEMMA reference gilt prices, but only after a period of engagement with the market to transition to successor arrangements. Further details are included in a separate press notice accompanying these minutes.