United Kingdom
Debt Management
Office

DMO Annual Review

2014-15

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Foreword by the DMO Chief Executive

In 2014-15, the DMO continued successfully to deliver the government's gilt financing programme in a challenging and volatile market environment. Long gilt yields declined to record lows during the year, as 30-year yields fell towards 2% in January 2015. Against this backdrop, in the second half of 2014-15 the government announced its intention to redeem four of the undated gilts with a nominal value of £2.2 billion. At the Budget in March 2015, the intention to redeem the remaining four undated gilts in 2015-16 was announced, thereby removing all the undated debt from the gilt portfolio.

The DMO raised £126.4 billion of gilt financing in 2014-15, which was the seventh consecutive year that the gross gilt sales programme had exceeded £100 billion. Auctions remain the DMO's primary and most important means of distributing gilts and accounted for £105.6 billion, 84% of the gilt sales programme in 2014-15. The use of supplementary distribution methods, principally syndicated gilt offerings, again facilitated the issuance of long-dated conventional and index-linked gilts, and allowed the DMO to continue targeting its core domestic investor base more directly.

Four syndicated gilt offerings were held in 2014-15, raising £19.6 billion. Such was the size and quality of demand that each was increased in size above initial planning assumptions. Over the financial year, £2.5 billion of funding that had initially been planned via the gilt mini-tender programme was re-allocated to the syndication programme to accommodate these increases. As a result, only one gilt mini-tender was held in 2014-15, raising £1.2 billion. In all, the DMO held 46 gilt financing operations (including 41 auctions), which was six fewer than in the previous financial year.

I continue to be impressed by the efficiency of the gilt market in smoothly absorbing these levels of gilt issuance. In seven years, the total nominal value of gilts in issue has more than tripled to over £1.4 trillion whilst the gilt market has developed significantly in terms of the diversity of its investor base. A deep and liquid gilt market is critical to the DMO's ability to carry out its mandate successfully. Aggregate average daily turnover in 2014-15 was £28.7 billion, an 88% increase relative to seven years ago.

The DMO again performed strongly in carrying out its cash management function. All related objectives were met, despite challenging money market conditions. The DMO also saw continuing strong demand for Treasury bills. As with gilts, Treasury bills continued to attract significant overseas investor interest, with around 45% of the market being held by such investors at end-March 2015.

At 31 March 2015, the Public Works Loan Board held loan assets of £64.4 billion. 468 new loans totalling £2.6 billion were advanced during the year.

The DMO again successfully provided a cost-effective service to its clients through the fund management operations of the Commissioners for the Reduction of the National Debt. The market value of these funds at 31 March 2015 was £22.8 billion.

Our remit for 2015-16, as originally published on 18 March 2015 and revised on 23 April 2015, and again on 8 July 2015, currently includes plans for gilt sales of £127.4 billion. Revised plans to reduce the stock of Treasury bills issued via tenders by £3.5 billion to £61.5 billion (in market hands) by 31 March 2016 were also announced on 8 July.

In summary, the DMO has performed strongly across its range of activities and operations. I would like to express my appreciation to all DMO staff, to colleagues at HM Treasury and to all our market counterparties for their professionalism, commitment and support throughout the year.

Robert Stheeman
August 2015

Chapter 1: The Economy and Financial Markets

Macroeconomic Developments

Global growth was subdued overall during the financial year despite continued accommodative monetary policy. Economic activity was uneven in geographical terms: while it was generally robust in the US and UK, global growth was dampened by continued subdued activity in parts of Europe and slowing growth in a number of key emerging economies including China.

The price of oil, which fell by around 60% from the summer peak by the end of the financial year, was a key factor influencing global activity. Net oil importers generally benefitted while net oil exporters generally suffered, with a positive effect on global growth overall. The downward pressure from lower energy prices also resulted in low or negative inflation in many countries. In the euro area, negative inflation coupled with subdued growth and increased political tension over Greek sovereign debt led the European Central Bank (ECB) Governing Council to announce an extension to its programme of asset purchases in February 2015, and conditions and confidence improved somewhat in the final quarter of the financial year.

In the UK, real Gross Domestic Product (GDP) was relatively robust on a quarter-on-quarter (q-o-q) basis for the first three quarters with growth at 0.9%, 0.7% and 0.8% respectively before slowing to 0.4% in the final quarter[1]. Despite the fall in Q4 growth the average year-on-year (y-o-y) rate for the financial year was over 3.0%. Household expenditure continued to be the main driver of domestic growth and business investment made a positive contribution to growth in the financial year.

Consumer Prices Index (CPI) inflation was below the Bank of England's (BoE's) target growth rate of 2.0% (y-o-y) throughout the financial year. Starting at 1.8% the rate fell to 1.5% in May 2015 before rising to a 2014-15 peak of 1.9% in June. From this point the rate trended down, reaching a record low of 0.0% in February 2015 mostly driven by global factors, notably a sharp fall in the price of oil and a decline in food prices. The Retail Prices Index (RPI) measure of inflation, which is used to set the cash flows on index-linked gilts, started the financial year at 2.5% y-o-y and ranged between 2.3% and 2.6% for the next six months before trending to an in-year low of 0.9% by the end of the financial year.

In the sphere of domestic monetary policy, the BoE official Bank Rate remained at a historical low level of 0.5% throughout 2014-15 and the stock of asset purchases, financed by the creation of central bank reserves (also known as 'quantitative easing' or QE), was maintained at £375 billion. CPI Inflation is forecast by the BoE and the Office for Budget Responsibility (OBR) to remain low for the rest of the year, before gradually returning to the 2% target in the medium term.

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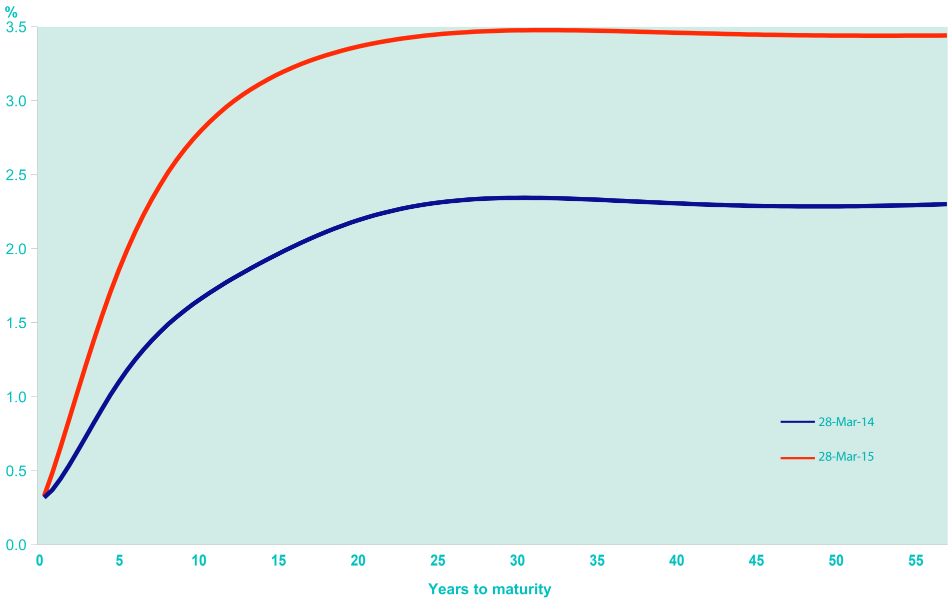
[1] All references to quarters and years in this document are in relation to the 2014-15 financial year, unless otherwise stated.

Gilt market developments

Par gilt yields

Nominal gilt yields fell significantly across the curve in 2014-15. The decline in yields compared with the previous financial year was particularly striking in the medium and long-dated maturity areas. For the financial year overall, 2-year yields fell by 32 basis points (bps) to 0.49%, 5-year yields by 77 bps to 1.06%, 10-year yields by 116 bps to 1.64%, 30-year yields by 116 bps to 2.34% and 50-year yields by 118 bps to 2.28% (see Chart 1).

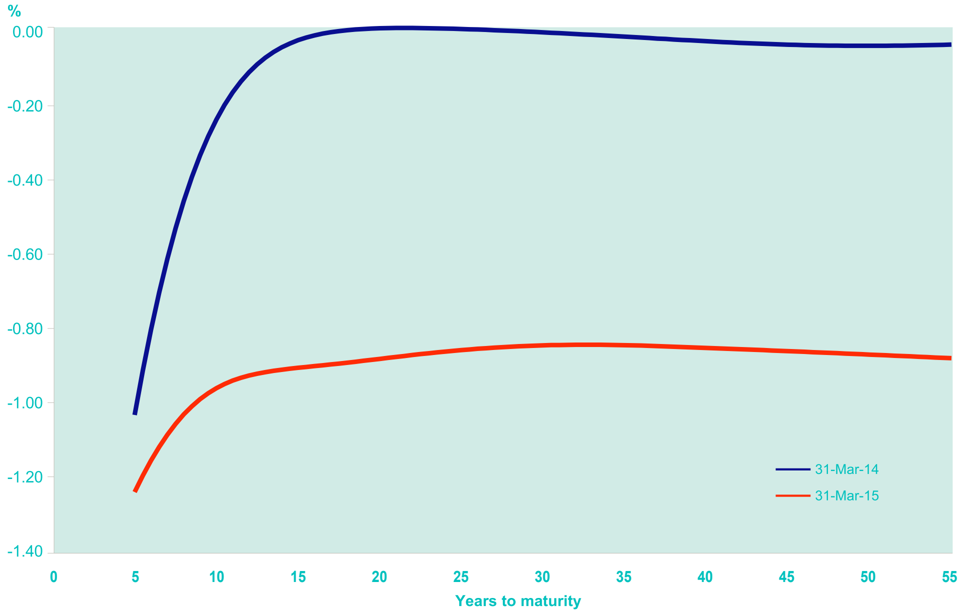
Chart 1: Nominal par yields



Source: DMO

Similarly, y-o-y, real yields were lower in 2014-15 across all maturities. The real yield par curve flattened as real yields in medium and long-dated maturities fell more than in shorter maturities. 5-year real par yields fell by 21 bps to -1.29%, 10-year par yields by 74 bps to -1.01%, 30-year par yields by 86 bps to -0.89% and 50-year par yields by 85 bps to -0.91%. (see chart 2).

Chart 2:
Real par yields



Source: DMO

Nominal yields

For long periods in 2014-15, the gilt market benefitted from flight-to-quality flows resulting from geopolitical tensions (between Russia and Ukraine and Israel and the Gaza strip) and concerns about the pace of recovery in the global economy, particularly in Europe. Gilt yields rallied across the curve for more than three quarters of the year, falling to historical lows at the long-end in January 2015.

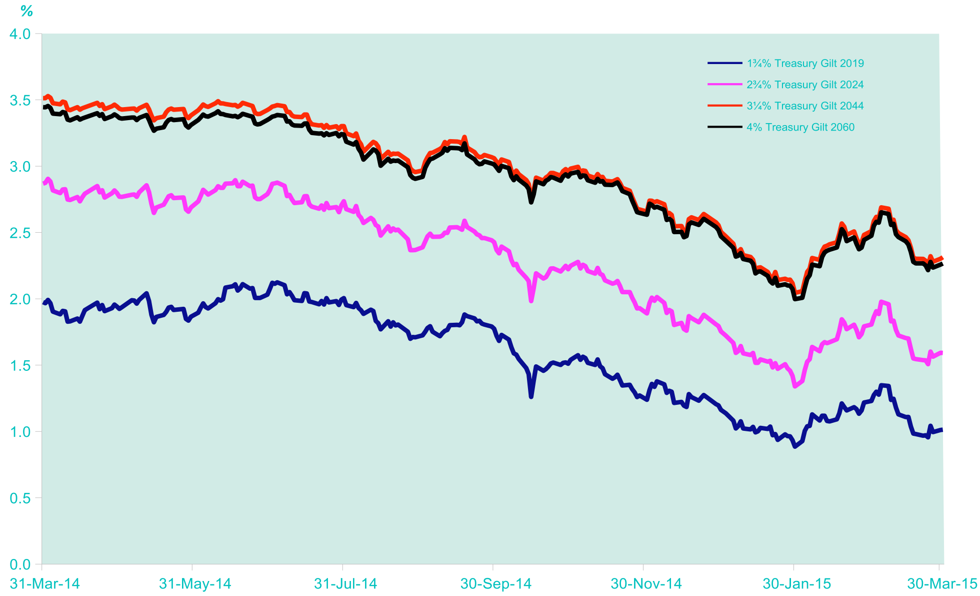
The Scottish independence referendum was the main focus in the gilt market for much of September 2014. Prior to the vote, the gilt market had remained relatively sanguine towards the risk associated with Scotland becoming independent. However, the release of more finely-balanced opinion polls raised this risk and gilt yields rose in response. The referendum outcome, however, led to a flight to quality into gilts and yields fell along the curve.

A brief reversal of the trend lower occurred in February 2015 as gilt yields rose reflecting an increase in confidence in the rate of global economic growth and rising expectations that the US Federal Reserve could raise interest rates in the near-term. During February, markets priced in expectations of a rise in Bank Rate in mid-2016.

The ECB cut all its major rates by 10 bps in September 2014 and, in March 2015, the ECB announced the launch of a programme of asset purchases, largely comprised of euro area sovereign debt. Elsewhere, the US Federal Reserve concluded its asset purchase programme in October 2014 and, with ongoing positive signs regarding the prospects for the US economy, market expectations of an interest rate rise grew.

The path of nominal gilt yields over 2014-15 is shown in Chart 3.

Chart 3
Nominal yields

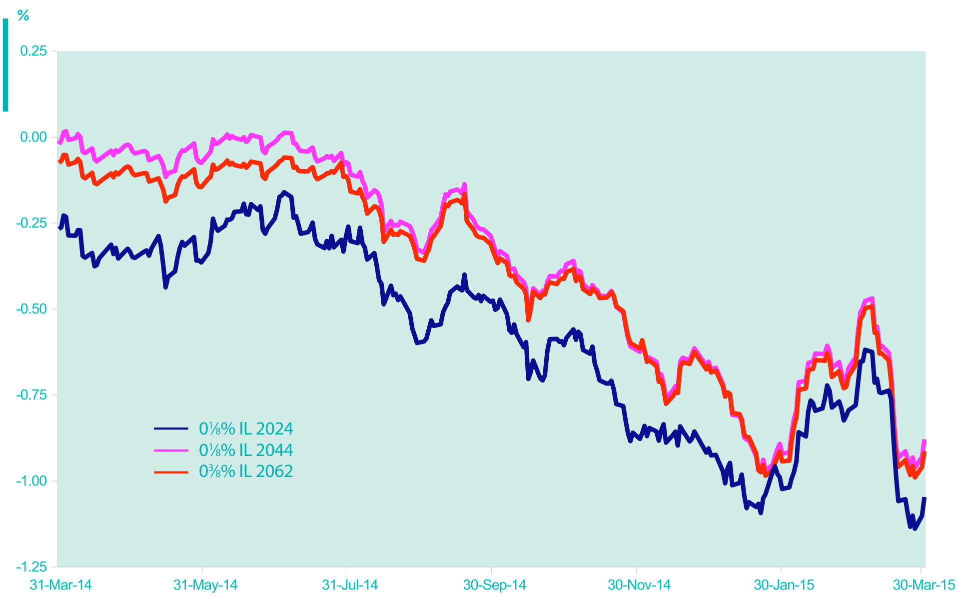


Source: DMO

Real yields

Chart 4 shows the real yields on selected index-linked gilts in 2014-15. The real yield on 0⅛% Index-linked Treasury Gilt 2024 fell by 78 bps y-o-y to -1.04%, whilst the yield on 0⅛% Index-linked Treasury Gilt 2044 fell by 86 bps to -0.88% and that on 0⅜% Index-linked Treasury Gilt 2062 by 84 bps to -0.91%. Real yields between different maturities traded in a very narrow range in the final quarter of the year, resulting in a flattening of the real yield curve.

Chart 4:
Real yields



Source: DMO

Break-even inflation rates

For the first three quarters of the year, index-linked gilts, as measured by break-even inflation rates, underperformed relative to their conventional gilt counterparts, reflecting the market's expectation that inflation would fall. This underperformance was particularly notable in late 2014 and early 2015. 10-year, 30-year and 50-year y-o-y breakeven inflation rates fell by 49 bps (to 2.67%), 33 bps (to 3.23%) and 33 bps (to 3.22%) respectively (see Chart 5).

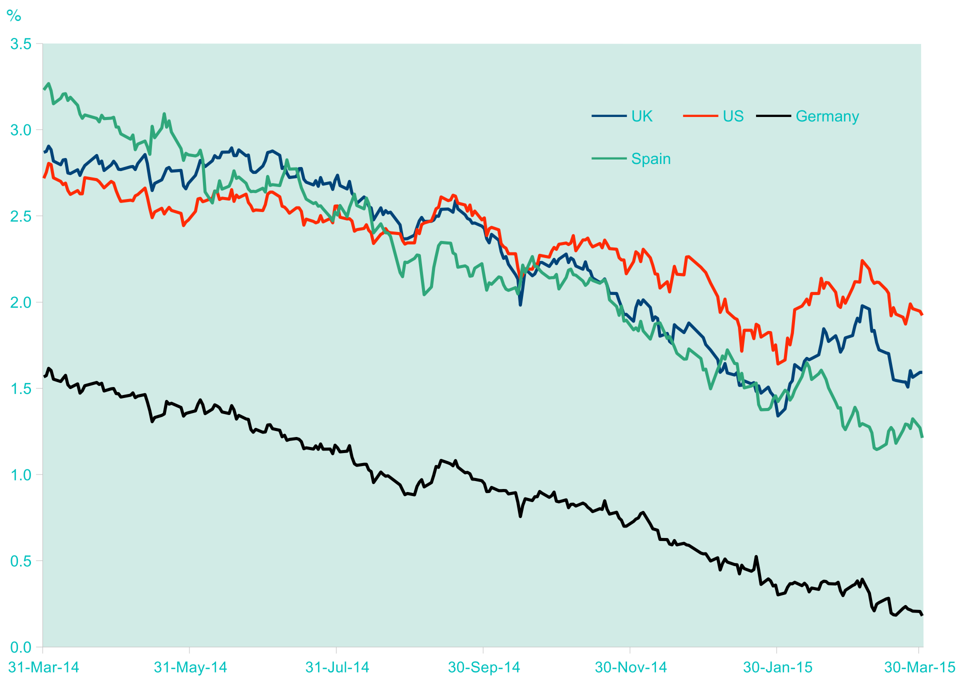
Chart 5: 10- 30- and 50-year break-even inflation rates

Source: DMO

International comparisons

Yields on 10-year UK, US, German and Spanish government bonds all fell in 2014-15. 10-year yields in the UK fell by 128 bps relative to the start of the financial year, in the US by 79 bps, in Germany by 139 bps and in Spain by 202 bps (see Chart 6).

Chart 6: Selected international 10-year benchmark bond yields

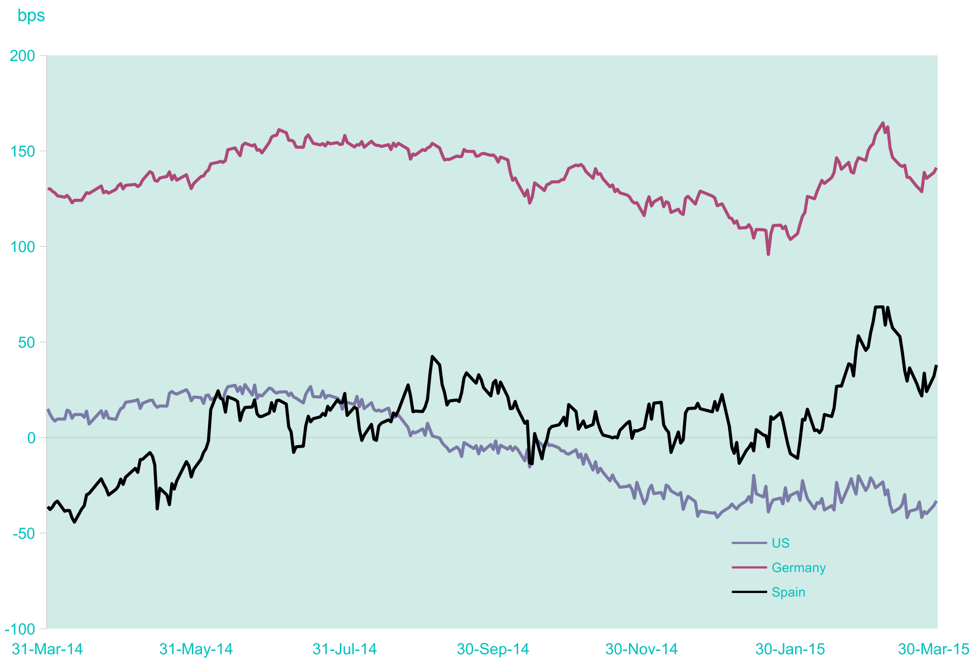


Source: Bloomberg

The spread between 10-year gilt and US Treasury yields declined for most of the financial year. At the beginning of the financial year, the spread was +15 bps and declined to -33 bps by the end of the year. In absolute terms, the 10-year gilt yield fell below the 10-year US Treasury yield and remained lower for the second half of the financial year. The fall in US Treasury yields slowed relative to gilts as the US Federal Reserve completed its asset purchase programme and market expectations of an increase in interest rates grew (see Chart 7).

The spread between 10-year gilt and German government bonds (bund) yields remained relatively stable over the financial year, beginning the year at +130 bps and ending at +141 bps. The comparable spread to Spanish government bonds (obligaciones) began the financial year at -36 bps and ended it at +38 bps. Market expectations of quantitative easing measures being introduced by the ECB and then the ECB's announcement of a programme of asset purchases led to the yields of German and Spanish government bonds falling sharply relative to gilts in February and March 2015; the resultant changes in spreads are shown in Chart 7.

Chart 7: Selected international 10-year benchmark bond spreads to gilts

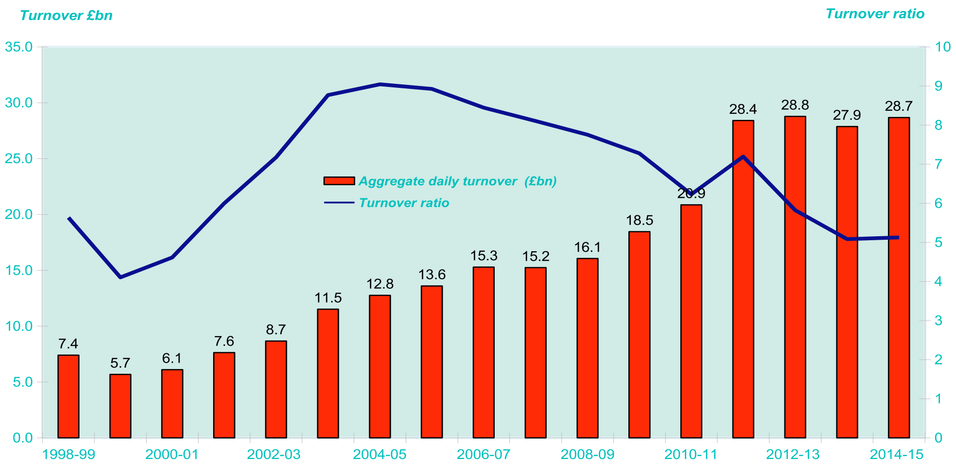


Source: Bloomberg

Gilt market turnover

Aggregate daily turnover by value in the gilt market in 2014-15 rose by £0.8 billion compared with the previous financial year (from £27.9 billion to £28.7 billion). Relative to 2013-14, trading intensity (as measured by the turnover ratio[2]) rose marginally from 5.08 to 5.13 (see Chart 8).

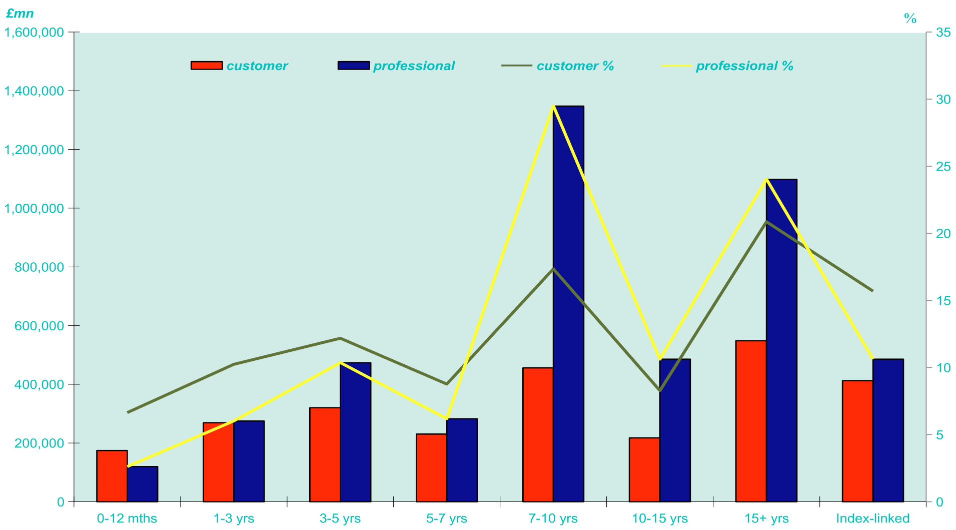
Chart 8:
Gilt market turnover



Source: Gilt-edged Market Makers (GEMMs)

Gilt market turnover was weighted towards the 7-10 year and the over 15-year maturity sectors. Index-linked gilts were the next most actively traded instruments, followed closely by the 3-5 year maturity sector (see Chart 9)[3].

Chart 9:
Gilt market turnover by maturity and type



Source: GEMMs

[2] The turnover ratio for a given year is the aggregate turnover in that financial year relative to the market value of the gilt portfolio at the start of the year.
[3] Customer turnover refers to trade directly with an end investor, and professional turnover refers to trade with other official market participants including GEMMs, brokers, the DMO and the Bank of England.

Money market developments

Policy interest rates in the UK and US remained unchanged in 2014-15 although some market commentators had expected a rate rise in the second half of the financial year. In contrast, the ECB loosened monetary policy further, cutting its policy interest rate from 0.25% to 0.15% in June 2014 and by a further 10 bps to 0.05% in September 2014 (see Chart 10).

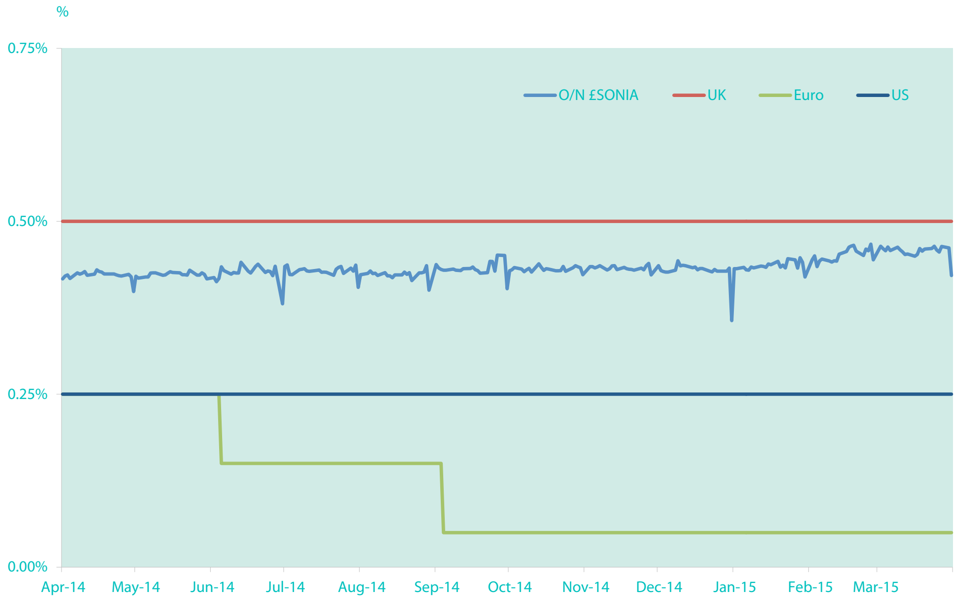
In the UK, the Monetary Policy Committee (MPC) voted to maintain the Bank Rate at 0.50%. It also voted to maintain the stock of asset purchases, financed by the creation of central bank reserves, at £375 billion throughout the financial year. CPI inflation was below the 2% target throughout the financial year, falling to 0.0% by February 2015. The weakness in inflation was a result of low contributions from energy and food prices, primarily due to the falling price of oil and lower global agriculture prices. Against this backdrop, the MPC chose to keep the Bank Rate unchanged but, as set out under the central case in the open letter from the Governor, published on 12 February 2015, the MPC judged it was 'more likely than not' that Bank Rate will increase over the three year forecast horizon. The need for banks to draw from the Funding for Lending Scheme also declined over 2014-15 as banks' funding costs neared historical lows. The lower wholesale funding costs have been attributed to growing confidence in the resilience of the UK banking sector.

The ECB loosened monetary policy in the euro area further over 2014-15, becoming the first major central bank to introduce negative rates in June 2014. In September 2014, the ECB also announced that it will conduct targeted longer-term refinancing operations (TLTROs) to ease the monetary stance. The TLTROs allow banks to borrow up to 7% of the value of their loans to the non-financial private sector. The ECB also continued its fixed rate tender procedure, which provides any funds demanded by a bank provided that adequate collateral is posted. Further to these measures, the ECB announced an expanded programme of asset purchases in January 2015. This series of measures was introduced to support euro area economies which were waning under declining manufacturing output and low inflation. The QE programme commenced in March 2015 and helped to boost euro area asset prices whilst lowering yields on euro area government bonds.

In the United States, employment improved over 2014-15 but wage growth remained weak and inflation remained below the US Federal Reserve's target. GDP growth also presented transitory weakness in Q4. The Federal Open Markets Committee (FOMC) elected not to raise rates over this period given the mixed economic data. Developments in the labour market and signalling by FOMC members has led analysts and market commentators to forecast that the FOMC will begin to raise rates in 2015-16.

Both the BoE and the US Federal Reserve stressed the likelihood of a gradual rate rise when rates are first increased. Market prices in early 2015 reflected this assertion as the implied pace of a rise in the Bank Rate was particularly gradual when compared with previous tightening cycles. Market prices reflected similar expectations in the US but also expected euro area rates to remain near zero for the three years from May 2015.

Chart 10:
Official interest rates

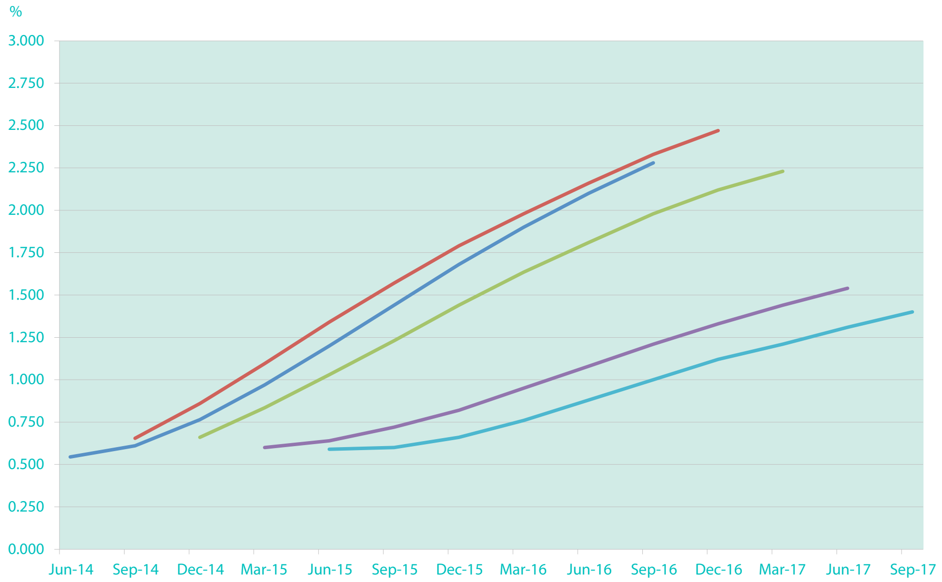


Source: Bloomberg/British Bankers' Association (BBA)

Chart 10 shows the path of the Sterling Overnight Index Average (SONIA) rate in 2014-15. In the UK the spread between SONIA and Bank Rate ranged between -3 bps and -14 bps (i.e. it remained slightly below Bank Rate) with the spread typically widening at month-end and quarter-end when demand for overnight liquidity among UK banks is significantly reduced.

The changing path of future interest rate expectations over the financial year can be seen in the implied yields of short sterling contracts shown in Chart 11. All the curves show a rise in interest rate expectations over the course of the year albeit at a slower pace than previously suggested.

Chart 11:
Implied curves from short sterling contracts



Source: Bloomberg

Chapter 2: Government Debt Management

Debt management responsibilities and objectives

Objectives of debt management

The UK Government's debt management policy objective is:

"to minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy."

The objective is achieved by:

- meeting the principles of openness, transparency and predictability;
- developing a liquid and efficient gilt market;
- issuing gilts that achieve a benchmark premium;
- adjusting the maturity and nature of the government's debt portfolio, primarily by means of the maturity and composition of debt issuance and potentially by other market operations, including switch auctions, conversion offers and buy-backs; and
- offering cost-effective savings instruments to the retail sector through National Savings & Investments (NS&I).

Maturity and composition of debt issuance

In order to determine the maturity and composition of debt issuance, the government needs to take account of a number of factors including:

- the government's own appetite for risk, both nominal and real;
- the shape of both the nominal and real yield curves;
- investors' demand for gilts; and
- changes to the stock of Treasury bills and other short-term debt instruments.

The DMO's financing remit for 2014-15

Budget 2014

The financing remit for 2014-15 was published alongside the Budget on 19 March 2014. The Central Government Net Cash Requirement (CGNCR) forecast for 2014-15 was £100.7 billion[4], and the DMO's net financing requirement was forecast to be £144.9 billion.

Total planned debt sales were split as follows:

- Outright gilt sales: £128.4 billion
- Net Treasury bill sales: £16.5 billion

The gilt financing remit structure

The planned gilt sales programme of £128.4 billion, comprised:

- a programme of £106.4 billion in 41 auctions; and
- a supplementary gilt sales programmes of £22.0 billion, split as follows:
    - £17.0 billion of gilt sales via syndicated offerings; and
    - £5.0 billion of gilt sales via mini-tenders.

The planning assumption was that, as in previous years, the programme of syndicated offerings would be directed exclusively at long conventional and index-linked gilt sales. As in 2013-14, all types and maturities of gilts were eligible for sale via mini-tenders.

Overall planned issuance was split as follows:

- £32.4 billion of short conventional gilt sales in 8 auctions;
- £26.9 billion of medium conventional gilt sales in 8 auctions;
- £33.1 billion of long conventional gilt sales in 10 auctions (aiming to raise £24.6 billion) and £8.5 billion via syndication;
- £31.0 billion of index-linked gilt sales in 15 auctions (aiming to raise £22.5 billion) and £8.5 billion via syndication; and
- £5.0 billion via mini-tenders (potentially of any type of gilt).

Planned gilt sales fell by £22.6 billion compared with the plans for 2013-14 announced at Budget 2013 and the planned split of issuance was maintained at broadly similar levels compared with the previous year, but with a slightly greater skew to long conventional at the expense of short conventional issuance and mini-tenders. Table 1 below shows planned gilt sales in 2013-14 at Budget 2013 compared to the plans for 2014-15 at Budget 2014.

Table 1: Planned gilt sales in 2013-14 and 2014-15

	Budget 2013		Budget 2014		
	2013-14 (plan)		2014-15 (plan)		Change (percentage points)
	£bn	(%)	£bn	(%)	
Short	42.6	28.2	32.4	25.2	-3.0
Medium	30.0	19.9	26.9	21.0	1.1
Long	32.6	21.6	33.1	25.8	4.2
Index-linked	35.8	23.7	31.0	24.1	0.4
Mini-tenders	10	6.6	5.0	3.9	-2.7
	151.0		128.4		

[4] Excluding Northern Rock (Asset Management) (NRAM) and Bradford & Bingley (B&B).

Planned long conventional issuance became the largest single component of the sales programme in 2014-15 in both absolute and proportional terms (rising by £0.5 billion and 4.2 percentage points compared with the previous year), just overtaking short conventional issuance which fell by 3.0 percentage points. Planned sales of index-linked gilts were virtually unchanged in proportional terms, (rising by 0.4 percentage points).

The overall small adjustments to the split of issuance reflected an assessment of the prevailing relative cost effectiveness of issuance at different parts of the yield curve within the wider overall context of achieving the debt management objective and taking account of the relatively high weight that the government currently places on minimising adding in the near-term to refinancing risk exposure as far as possible.

Other operations

There were no plans to hold any switch auctions, reverse auctions, or conversion offers in 2014-15 (and none were held).

The 2014-15 remit also provided for the continuation of the Post Auction Option Facility (PAOF), under which successful bidders (GEMMs and investors) at each auction have the option to purchase additional stock of up to 10% of the amount allocated to them at the auction within a two hour window from noon to 2.00 pm on the day of the auction.

Outturn of the 2013-14 CGNCR: 23 April 2014

On 23 April 2014 the outturn CGNCR for 2013-14 was published. At £80.6 billion the outturn CGNCR (excluding NRAM and B&B) was £6.9 billion lower than the forecast in the March 2014 Budget.

Overall, the DMO's forecast net financing requirement for 2014-15 fell by £3.7 billion[5] compared with the position at the March Budget and the financing remit was revised as follows:

- Planned gilt sales were reduced by £1.2 billion to £127.2 billion. The reduction was taken from planned auction sales split as follows:
    - short conventional sales were reduced by £0.4 billion to £32.0 billion;
    - medium conventional sales were reduced by £0.2 billion to £26.7 billion;
    - long conventional sales were reduced by £0.2 billion with planned sales via auctions falling to £24.4 billion; and
    - index-linked sales were reduced by £0.4 billion with sales via auctions falling to £22.1 billion.

- Net Treasury bill sales were reduced by £2.5 billion (resulting in a revised planned stock change of £14.0 billion) and implying an anticipated stock of £70.5 billion by end-March 2015.

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[5] Also reflecting £3.3 billion of additional financing carried forward from 2013-14 taking into account the previous drawdown of sterling financing for the Official Reserves compared to plans and an expected requirement to finance up to £6.5 billion of borrowing by Network Rail in 2014-15.

Autumn Statement (AS) 2014

The Economic and Fiscal Outlook 2014 was published on 3 December 2014 by the OBR, and detailed new forecasts for the public finances, including the CGNCR (ex. NRAM, B&B and Network Rail). Alongside this, HM Treasury published the AS 2014 which included the consequent revision to the DMO's financing remit.

The DMO's net financing requirement for 2014-15 fell by £6.8 billion to £134.4 billion at the AS 2014 remit revision. A number of factors contributed to the change:

- a reduction of £4.9 billion (to £102.3 billion) in the forecast CGNCR (ex. NRAM, B&B and Network Rail) for 2014-15[6];
- an increase of £9.0 billion (to £30.2 billion) in the financing surplus adjustment carried forward from the previous financial year, primarily reflecting retrospective corrections by the Office for National Statistics (ONS) to the CGNCRs in 2012-13 and 2013-14;
- an additional £6.0 billion of financing for the Official Reserves;
- an increase of £2.3 billion (to £64.5 billion) in gilt redemptions, reflecting the government's decision to redeem 4% Consolidated Loan and 3½% War Loan in 2014-15;
- an increase of £0.5 billion (to £13.5 billion) in the forecast net contribution to financing from NS&I; and
- additional revenue of £0.7 billion from the issuance of Renminbi denominated debt, the sale of Sukuk and from coinage.

The £6.8 billion reduction in the net financing requirement was met by:

- a reduction of £5.5 billion in net Treasury bill sales, taking the planned stock at end-March 2015 to £65.0 billion;
- a reduction of £1.3 billion to £2.2 billion in planned gilt sales via mini-tenders, reducing overall planned gilt sales to £125.9 billion.

[6] This change was shown relative to a restated CGNCR figure for Budget 2014 of £107.2 billion that incorporated £6.5 billion of financing for Network Rail (which had been shown as a separate line in the financing arithmetic published at Budget 2014).

Budget March 2015

The Debt and reserves management report (DRMR) 2015-16 published on 18 March 2015 alongside the Budget included a new forecast by the OBR for the 2014-15 CGNCR (ex. NRAM, B&B and Network Rail) of £96.2 billion, a reduction of £6.1 billion since AS 2014. Overall, the revised net financing requirement for 2014-15 fell by £11.1 billion to £123.3 billion.

The other main changes (since AS 2014) impacting on financing in 2014-15 were:

- a £4.8 billion higher net contribution to financing from NS&I (from £13.5 billion to £18.3 billion); and
- an estimated outturn for gilt sales in 2014-15 which was £0.2 billion higher than plan, primarily reflecting proceeds from the PAOF.

The combination of these factors led to a forecast net cash position for the DMO at end-March 2014 of £11.8 billion relative to a planned net cash position of £0.5 billion. As usual in these circumstances, it was planned that the additional cash position would be run down in 2015-16 (reducing the financing requirement in that year by £11.3 billion).

Outturn CGNCR for 2014-15 and the financing outturn

An outturn CGNCR (ex. NRAM, B&B and Network Rail) for 2014-15 was published on 22 April 2015. At £92.3 billion, it was £3.9 billion lower than forecast at the March Budget.

The net financing requirement for 2014-15 fell by £2.5 billion to £121.8 billion reflecting a combination of other factors: an increase in financing for the Reserves of £0.7 billion, a reduction of £0.1 billion in the net contribution to financing from NS&I, an outturn for gilt sales in 2014-15 that was £0.3 billion higher than anticipated at the March Budget and a downward revision of £1.7 billion to net financing from various other small sources.

As a result of these developments the DMO net cash position at end-March 2015 was £13.6 billion. The short-term financing adjustment to be carried forward to the financing arithmetic in 2015-16 was £13.1 billion which reduced the net financing requirement in 2015-16 accordingly.

The developments in the 2014-15 financing arithmetic over the course of the financial year are shown in Table 2.

Table 2
Updates to the financing arithmetic 2014-15

2014-15 Financing arithmetic (£bn)	Budget 2014	April 2014	AS 2014	Budget 2015	April 2015
a) Financing items					
CGNCR (exc NRAM, B&B and NR)[1]	100.7	107.2	102.3	96.2	92.3
Redemptions	62.2	62.2	64.5	64.5	64.5
Financing for the Reserves	6.0	6.0	12.0	12.0	12.7
Secondary gilt market purchases	0.0	0.0	0.0	0.0	0.0
Fianancing adjustment carried forward from previous financial year	-11.1	-21.2	-30.2	-30.2	-30.2
Gross Financing requirement	157.9	154.2	148.6	142.4	139.2
Less					
Net contribution from National Savings & Investments	13.0	13.0	13.5	18.3	18.2
Sukuk			0.2	0.2	0.2
Renmimbi			0.3	0.3	0.3
Other financing items			0.3	0.3	-1.4
Net Financing requirement for DMO	144.9	141.2	134.4	123.3	121.8
b) Financed by					
1. Debt issuance by the DMO					
a) Treasury bills (planned chamge in stock issued at tenders)	16.5	14.0	8.5	8.5	8.5
b) Gilts	128.4	127.2	125.9	126.1	126.4
Short conventional	32.4	32.0	32.0	31.9	31.9
Medium conventional	26.9	26.7	26.7	27.9	28.2
Long conventional	33.1	32.9	33.9	34.1	34.1
Index-linked	31.0	30.6	31.1	32.3	32.3
Mini-tenders	5.0	5.0	2.2		
2. Ways and Means	0.0	0.0	0.0	0.0	0.0
Total financing	144.9	141.2	134.4	134.6	134.9
Short-term debt levels at end of financial year					
T-bill stock via tenders (in market hands)	73.0	70.5	65.0	65.0	65.0
Ways and Means	0.4	0.4	0.4	0.4	0.4
DMO net cash position	0.5	0.5	0.5	11.8	13.6

Figures may not sum due to rounding.

1 From April 2014 onwards the CGNCR total includes £6.5 billion of financing for Network Rail.

2 From Autumn Statement 2014 onwards, the financing arithmetic has included provision for small sources of additional financing. For 2014-15, this includes additional financing through non-governmental deposits, coinage, certificates of tax deposit and foreign exchange transactions.

3 The DMO has operational flexibility to vary the end-financial year stock by a maximum of £5 billion relative to the planning assumption, to offset any anticipated net Exchequer cash surplus or deficit towards year-end.

The DMO's gilt financing operations in 2014-15

New gilts issued

The DMO issued four new gilts in 2014-15, three conventional and one index-linked, as shown in Table 3. Two of these, 3½% 2045 and 0⅛% IL 2058, were launched via syndication, while the others were launched via auction.

Table 3
New gilts issued in 2014-15

First issue date	Gilt	Size (£mn nominal) end-March 2015
25-Jun-14	3½% Treasury Gilt 2045	13,415
30-Jul-14	0⅛% Index-linked Treasury Gilt 2058	8,000
03-Sep-14	2% Treasury Gilt 2020	19,577
20-Mar-15	2% Treasury Gilt 2025	3,025

Implementing the 2014-15 remit

a) Auctions

Auctions continued to comprise the core of the DMO's gilt sales programme in 2014-15 and, together with associated proceeds from the PAOF, raised £105.6 billion, accounting for 83.6% of overall gilt sales. The auction calendar for the financial year as a whole is usually announced before the start of each financial year, but the choice of gilts to be sold on each date is made quarter-by-quarter following the regular quarterly cycle of consultation meetings with representatives of the GEMMs and end investors. In 2014-15 these meetings again also considered the interaction between choices over gilts to be issued via auctions and those at syndicated offerings.

The consultation meetings were held in March 2014 (to discuss issuance in April-June), May 2014 (to discuss issuance in July-September), August 2014 (to discuss issuance in October-December) and December 2014 (to discuss issuance in January-March 2015).

Ahead of the meetings the DMO published on its screens and website, an agenda to steer the discussion. The morning after each meeting, summary minutes were published recording the main areas of discussion. The quarterly operations calendars, which specify the particular bonds to be sold at each auction together with advance notice of some of the details of forthcoming syndicated offerings, were published on the last business day of March, May and August and on 12 December 2014 respectively.

41 gilt auctions were held, eight each of short and medium conventional gilts, 10 of long conventional gilts and 15 of index-linked gilts. The results of gilt auctions are available on the DMO's website at:
http://www.dmo.gov.uk/ceLogon.aspx?page=Auction_Results&rptCode=D2.1A

The average cover ratio at gilt auctions in 2014-15 was 1.86, marginally higher than the average of 1.77 in 2013-14. Cover at short and medium conventional gilt auctions fell marginally, while there were increases in average cover ratios at long and in particular index-linked auctions (at which average cover rose by 11% y-o-y).

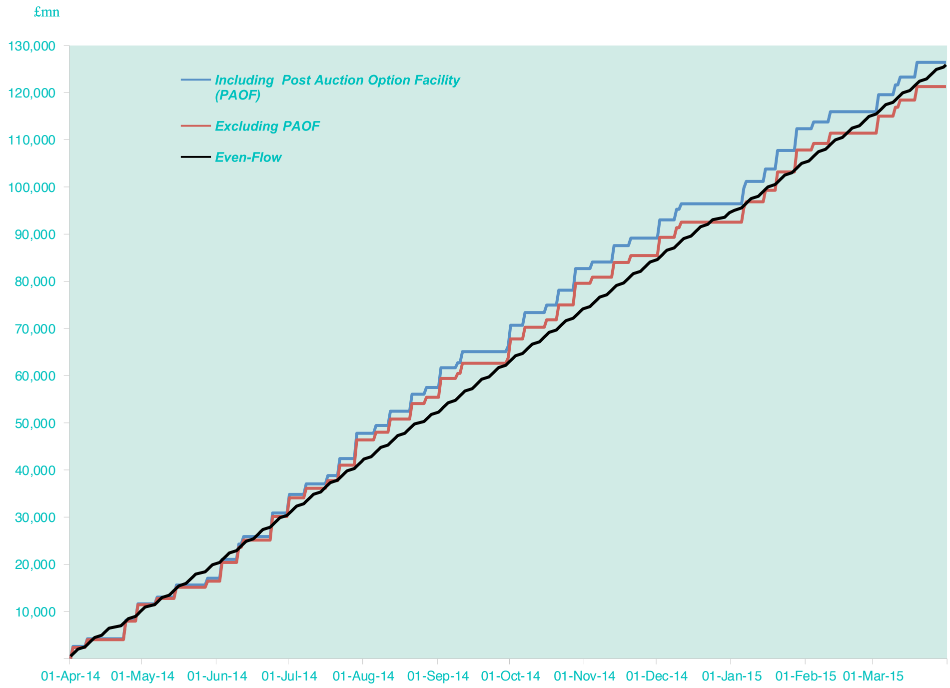
The average concentration of bidding at conventional gilt auctions, as measured by the tail[7], remained high and at an average of 0.3 bps, represented a marginal improvement on the previous year (see Table 4).

Table 4
Auction cover and tail 2013-14 and 2014-15

Gilt auctions	Cover ratio		Tail (bps)	
	2014-15	2013-14	2014-15	2013-14
Short conventional	1.54	1.60	0.4	0.6
Medium conventional	1.68	1.77	0.2	0.2
Long conventional	1.74	1.62	0.3	0.3
Index-linked	2.20	1.98	N/A	N/A
All	1.86	1.77	0.3	0.4

Gilt sales proceeds were received on a broadly even-flow basis throughout the year as illustrated in Chart 12, which shows cumulative proceeds from all operations including and excluding proceeds from the PAOF.

Chart 12
Gilt sales proceeds even-flow



Source: DMO

[7] The tail is the difference in basis points between the yield at the average and lowest accepted prices at multiple price auctions (conventional gilts).

b) Syndicated offerings

The DMO again used syndicated offerings as an integral part of the remit in 2014-15 to supplement auctions and facilitate the primary gilt distribution process. Continued usage of syndications reflected the ongoing historically high level of the financing requirement. In particular, syndications enabled the DMO to issue more long conventional and index-linked gilts than it judged would have been practicable via the auction process alone.

The DMO stated in its remit announcement alongside Budget 2014 that it planned to use the syndication programme to launch new gilts and for re-openings of high duration gilts, with an upfront planning assumption that it would raise £17.0 billion via syndication (£8.5 billion each of long conventional and index-linked gilts).

Subject to market feedback the DMO said that it envisaged holding at least four syndicated offerings (one per quarter) but that, after discussion with market participants, it may hold additional transactions. The remit allowed the DMO to vary the size of each syndicated sale having regard to the size and quality of end investor demand in the order book[8].

An outline pattern for the approximate timing of syndications and the scheduling of gilt sales by type in the quarter ahead was discussed at the quarterly consultation meetings in 2014-15 and planning assumptions about the syndication programme were published in the quarterly operations calendar announcements. A greater level of precision is typically given in the announcement about the type and maturity of those sales by syndication planned closest to the date of the calendar announcement. Around two weeks in advance of the anticipated operation, a series of further DMO announcements begin, including the announcement of the appointment of the Lead Managers and the maturity of the bond to be sold.

£19.6 billion was raised through four syndicated offerings in 2014-15 (two each of long conventional and of index-linked gilts). The total was £2.6 billion more than the original plan, reflecting re-allocations into the syndication programme from the mini-tender programme to allow increases in the sizes of all four syndications to take account of the size and quality of demand received in each case.

The results of the syndication programme in 2014-15 are summarised in Table 5.

Table 5
Syndicated gilt offerings in 2014-15

Date	Gilt	Size (£mn nom)	Issue price (£)	Issue yield (%)	Proceeds (£mn cash)
24-Jun-14	3½% Treasury Gilt 2045	5,000	100.673	3.464	5,024
29 Jul 2014	0⅛% Index-linked Treasury Gilt 2058	5,000	107.861	-0.053	5,382
28 Oct 2014	3½% Treasury Gilt 2068	4,000	114.300	2.966	4,564
27 Jan 2015	0⅛% Index-linked Treasury Gilt 2058	3,000	153.889	-0.896	4,634
Figures may not sum due to rounding.					19,604

Source: DMO

[8] In the event that proceeds from syndications varied from plan, the mini-tender programme was designed to act as a buffer, with the size of that programme capable of being reduced if syndication sales were higher than plan or increased if syndication sales fell short of plan. In addition, in the event that the balance of sales required to meet either the long conventional or index-linked syndication targets was deemed too small to permit a viably sized final offer (despite any offsetting adjustments to the mini-tender programme), the sizes of the sales targets for long conventional and index-linked gilts could be increased in total by up to 10% of the size of the respective programmes.

As in the previous financial years, strong domestic order books were a feature throughout the 2014-15 syndication programme, with the domestic investor base taking an average of 91% of each sale (marginally down on the 94% figure for 2013-14). Domestic investor orders were largely from asset managers, pension funds and insurance companies, reflecting their structural demand for liability-matching long-dated fixed income assets.

c) Mini-tenders

As in 2013-14, all types and maturities of gilt were eligible for sales via the mini-tender programme in 2014-15[9].

Mini-tenders had originally been introduced in 2008-09 to target pockets of demand in specific long conventional and index-linked gilts as they emerged in-year. However, over the successive financial years the mini-tender programme evolved so that it also has a supporting role to the syndication programme, with the outturn size of the mini-tender programme being varied to accommodate variances in syndication proceeds. In practice, syndication proceeds in recent years have tended to exceed initial plans and the size of mini-tender programmes has been reduced accordingly.

The remit formalises this arrangement with the scheduling of mini-tenders taking place depending on market demand and the progress of the syndication programme and with the DMO re-stating the prevailing planning assumption of the respective sizes of the syndication and mini-tender programmes after each syndicated offer.

The initial planned size of the mini-tender programme in 2014-15 was £5.0 billion, but this was progressively reduced during the year. Each of the four syndications were increased above initially envisaged sizes with re-allocations from the mini-tender programme of £500 million in each of June, July and October 2014 and of £1.0 billion in January 2015. In addition, the size of the mini-tender programme was reduced by £1.3 billion at the 2014 Autumn Statement. Only one mini-tender was held in 2014-15, raising £1.2 billion (cash) at the sale of £1.0 billion (nominal) of 4¼% 2027 on 30 September 2014.

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[9] Originally their use had been confined to long conventional and index-linked gilts only.

Gilt sales outturn for 2014-15

The outturn for gilt sales versus the different remit targets in 2014-15 is shown in Table 6, and indicates that the DMO exceeded its overall gilt sales target by £520 million (0.4%).

In aggregate the proceeds from auctions and the PAOF came in £440 million (0.4%) above plan mainly due to proceeds from the PAOF. Sales via syndications were £104 million (0.5%) above the final higher plan. Sales via mini-tender were slightly below the final target.

Table 6
Gilt sales outturn relative to remit targets

	Short	Medium	Long	Index-linked	Total
Remit target					125,900
Total sales outturn	31,879	28,152	34,105	32,284	126,420
Sales v target (£mn)					520
Sales v target (%)					0.4%
Auction targets	32,000	26,700	24,400	22,100	105,200
Outturn (inc PAOF)	31,879	26,975	24,516	22,269	105,640
Sales v target (£mn)	121	275	116	169	440
Sales v target (%)	-0.4%	1.0%	0.5%	0.8%	0.4%
Syndication targets			9,500	10,000	19,500
Outturn			9,588	10,015	19,604
Sales v target (£mn)	-	-	88	15	104
Sales v target (%)			0.9%	0.2%	0.5%
Mini-tender target*					1,200
Outturn		1,177			
Sales v target (£mn)					-23
Sales v target (%)					-1.9%
*Final target at end-financial year					
Figures may not sum due to rounding					

The redemption of the undated gilts

Another milestone in the history of the gilt market was reached on 5 July 2015, when the last remaining ‘undated’ bonds in the UK gilt portfolio were redeemed. This concluded a process that was first initiated by the Chancellor of the Exchequer in October 2014.

As at end-October 2014, there were eight undated gilts in issue, which comprised just 0.23% of the gilt portfolio, a total of £2.59 billion nominal, (see Table 7). The term ‘undated’ refers to the fact that these gilts had no fixed maturity date, only a first maturity date after which the government could choose to redeem given a set notice period[10]. The option to redeem these gilts rested with the government. Prior to the Second World War the undated gilts comprised a large part of the UK debt stock.

The oldest of the remaining undated gilts was 2½% Annuities which was first issued in 1853. This bond was the consolidation of a number of issues, including the debt and capital stock of the South Sea company, dating back to the early 1700s. The last undated gilt to have been issued by the UK government was in October 1946 (2½% Treasury Stock).

Table 7
The undated gilts in issue in October 2014 (listed in order of subsequent redemption date)

Undated gilts	Amount in issue at redemption (£mn nom)	Dividend dates	First issue date	Redemption date	Notes on first issue
4% Consolidated Loan (1957 or after)	218.4	1 Feb/Aug	19 Jan 1927	1 February 2015	Issued for cash and in exchange for 5% Treasury Bonds 1927, 4% National War Bonds 1927, 5% National War Bonds 1927, 5% Treasury Bonds 1933-1935, 4½% Treasury Bonds 1932-1934 and 4½% Treasury Bonds 1930-1932.
3½% War Loan (1952 or after)	1938.6	1 Jun/Dec	01 Dec 1932	9 March 2015	Issued in exchange for 5% War Loan 1929-1947.
3½% Conversion Loan (1961 or after)	15.6	1 Apr/Oct	01 Apr 1921	1 April 2015	Issued in exchange for 5% National War Bonds 1922, 1923 (Apr and Sep), 1924 (Feb and Oct), 1925 (Apr and Sept). Has an active sinking fund.
3% Treasury Stock (1966 or after)	34.6	1 Apr/Oct	01 Mar 1946	8 May 2015	Issued in exchange for Bank Stock in accordance with the provisions of the Bank of England Act 1946.
2¾% Annuities	0.7	5 Jan/Apr/Jul/Oct	17 Oct 1884	5 July 2015	Issued by exchange for New 3% Annuities, Reduced 3% Annuities and Consolidated 3% Annuities.
2½% Treasury Stock (1975 or after)	220.9	1 Apr/Oct	28 Oct 1946	5 July 2015	Issued for cash.
2½% Consolidated Stock (1923 or after)	162.1	5 Jan/Apr/Jul/Oct	5 April 1888	5 July 2015	Issued in exchange for Consolidated 3% Annuities (1752), Reduced 3% Annuities (1752) and New 3% Annuities (1855).
2½% Annuities	0.9	5 Jan/Apr/Jul/Oct	13 Jun 1853	5 July 2015	Issued in exchange for South Sea Stock, Old South Sea 3% Annuities, New South Sea 3% Annuities, Bank 3% Annuities (1726) and 3% Annuities (1751).

[10] The investor pays the issuer to purchase the bond and in return receives an unending stream of coupons from the issuer until the issuer exercises its option to repay the bond.

Whilst the government recognised the role of the undated gilts as low-cost and long-term borrowing with no need for refinancing, historically low and stable long-term gilt yields meant that the government came to the judgement that redemption and refinancing of the undated gilts would provide value for money for the taxpayer both currently and in the future.

The first bond to be called was 4% Consolidated Loan[11] (announced on 31 October 2014). The decision to redeem this bond was also considered as the first step in repaying part of the UK government's First World War debts (this debt also comprised 3½% War Loan and 3½% Conversion Loan).

The redemption of the remaining undated gilts was also motivated by the government's strategy to continue to modernise the gilt portfolio. With the exception of 3½% War Loan, all the undated bonds were "rump" gilts, signifying that they were very small in size, illiquid and no longer actively traded in the market. The government's intention is that the modern gilt market should be focused on large liquid benchmark bonds facilitating global investor access, in line with other major sovereign bond markets.

A number of important practical considerations arose during the redemption process. In particular, 3½% War Loan[12] was by far the largest of the eight undated gilts at £1.9 billion nominal in size (accounting for 75% of the total stock of undated gilts). The bond was also the most widely held of any UK government bond with more than 120,000 holders, or 60% by number of all holdings of government gilts. The redemption of this bond was the largest single redemption exercise for UK government bonds and was undertaken by the gilt registrar, Computershare Investor Services PLC.

In addition, primary legislation was required to facilitate the redemption of three of the undated gilts (2¾% Annuities, 2½% Annuities and 2½% Consolidated Stock). Appropriate powers were included in the Finance Act 2015, which received Royal Assent on 26 March 2015.

In accordance with the terms of their respective prospectuses (and for the three gilts mentioned above, by virtue of the Finance Act 2015), the redemption of the undated gilts were all announced, giving three months' notice, in the London Gazette. The redemption of the undated gilts added to the redemption totals in 2014-15 and 2015-16 and has been financed as part of the DMO's overall debt sales programme in those financial years.

[11] This bond was commonly referred to as "4% Consols"; Consols was a popular abbreviation of "Consolidated", referring to the fact that a bond had been issued as a result of the consolidation of a number of previous issues.
[12] 3½% War Loan was issued in 1932 as part of a nationwide conversion campaign led by the then Chancellor Neville Chamberlain to reduce the costs of servicing the national debt. The bond was issued in exchange for 5% War Loan 1929-47, which had been issued in 1917 in an effort to raise money to finance the First World War.

DMO remit 2015-16 (March 2015 Budget)

The DMO remit for 2015-16 was published in the Debt and reserves management report 2015-16 on 18 March 2015 alongside the Budget.

Total debt sales by the DMO of £140.4 billion were planned in 2015-16, split as follows:

Outright gilt sales:	£133.4 billion
Net Treasury bill sales via tenders:	£7.0 billion

The structure of the gilt financing remit

It was intended that the gilt sales plans would be met through a combination of:

- £105.2 billion sales via 39 outright auctions; and
- £28.2 billion sales via supplementary distribution methods split as follows:
  - a minimum of £24.2 billion in a programme of syndicated offerings; and
  - an initially unallocated pot of supplementary issuance of £4.0 billion that can be allocated in year to syndications and/or mini-tenders, subject to market demand.

The planning assumption was that (as in previous years) sales via the syndication programme would be of long conventional and index-linked gilts only. As in the previous three financial years, all maturities and types of gilt are eligible for sale via mini-tender in 2015-16.

The following planned split of issuance was announced:

- £33.9 billion of short conventional gilt sales in 8 auctions;
- £26.7 billion of medium conventional gilt sales in 8 auctions;
- £37.4 billion of long conventional gilt sales (£28.1 billion in 12 auctions and a minimum of £9.3 billion via syndicated offerings); and
- £31.4 billion of index-linked gilts sales (£16.5 billion in 11 auctions; and a minimum of £14.9 billion via syndicated offerings).

The issuance methods to achieve the supplementary sales reflected the prevailing assumptions at the time the remit was announced. It was recognised that total financing achieved via each supplementary method would be dependent on market and demand conditions at the time the operations are conducted.

The supplementary distribution programme

- Syndicated Offerings

As in 2014-15, it is envisaged that the syndication programme will only be used to launch new gilts and for re-openings of high duration gilts.

The remit specified that the DMO envisaged holding approximately six syndicated offerings (four of index-linked gilts and two of long conventional gilts). Sizing decisions for syndications will have regard to the size and quality of end investor demand in the order book.

- Mini-Tenders

Mini-tenders are again to be scheduled in-year, depending on market demand and the progress of the syndication programme and will be added to the calendar with at least seven working days' notice, after market consultation. Mini-tenders can be for any type or maturity of gilt.

- Post Auction Option Facility (PAOF)

The remit also provided for the continued application of the PAOF in 2015-16.

Any proceeds raised via the PAOF will count towards remit auction targets and be factored into auction size calculations on an auction-by-auction basis throughout the financial year. All else equal, PAOF proceeds will be used progressively to reduce implied average auction sizes throughout the year. Average auction sizes are re-stated after every auction.

Other operations

The remit specified that the DMO has no current plans to hold any switch auctions, reverse auctions or conversion offers in 2015-16.

New gilt instruments

The remit specified that prior to introducing any new types of gilt instrument the DMO would consult market participants and seek HM Treasury's approval.

Treasury bill financing

The stock of Treasury bills in market hands issued via tenders was scheduled at the Budget in March 2015 to rise by £7.0 billion in 2015-16, implying a planned stock of Treasury bills at end-March 2016 of £72.0 billion.

In-year revisions to the remit

There are two main events which may trigger revisions to the remit in any financial year:

- the publication, usually in the third week of April, of an outturn CGNCR for the previous financial year if the outturn differs from the forecast published in the Budget; and/or

- the publication, in the Autumn Statement (usually in the November-December period), of a significantly different forecast financing requirement for the prevailing financial year.

2014-15 CGNCR outturn revision to the 2015-16 financing remit

The DMO's net financing requirement for 2015-16 fell by £2.5 billion in the remit revision coinciding with publication of the CGNCR outturn for 2014-15 on 22 April 2015.

The reduction in the financing requirement was handled entirely by a reduction in gilt sales via auctions of £2.5 billion - split as follows:

Short conventional	£0.7 billion (to £33.2 billion).
Medium conventional	£0.5 billion (to £26.2 billion).
Long conventional	£0.7 billion (to £27.4 billion).
Index-linked gilts	£0.6 billion (to £15.9 billion).

July Budget - remit revision

Following the election of the new government at the General Election of May 2015, a Summer Budget was held on 8 July 2015, as part of which new forecasts for the public finances were published. The new forecast for the 2015-16 CGNCR (ex. B&B, NRAM and NR) was £71.6 billion, £14.0 billion lower than the forecast published at the March Budget, and the DMO's net financing requirement for 2015-16 also fell by £14.0 billion.

The reduction in the financing requirement was met by a combination of:

- a £3.5 billion reduction in planned gilt sales (achieved by reducing the average sizes of gilt auctions) and taking the planned total for gilt sales in 2015-16 to £127.4 billion; and
- a £10.5 billion reduction in planned net Treasury bill sales, taking the planned stock in issue at end-March 2016 to £61.5 billion.

The remit structure following the July 2015 revision is shown in Table 8.

Table 8
Structure of the 2015-16 gilt financing remit following the July 2015 Budget

	Auction	Syndication	Mini-tender	Unallocated supplementary	Total
Short conventional					
£ billion	32.3				32.3
Per cent					25.4%
Medium conventional					
£ billion	25.4				25.4
Per cent					19.9%
Long conventional					
£ billion	26.5	9.3	1.0		36.8
Per cent					28.9%
Index-linked					
£ billion	15.0	15.2			30.2
Per cent					23.7%
Unallocated					
£ billion				2.7	2.7
Per cent					2.1%
Total £ billion	**99.2**	**24.5**	**1.0**	**2.7**	**127.4**
	77.9%	19.2%	0.8%	2.1%	
Figures may not sum due to rounding					

Future gross financing projections

The Budget in July 2015 included new projections for the CGNCR as a percentage of GDP out to 2020-21. Table 9 sets out the resulting CGNCR projections in cash terms together with current redemption totals to produce illustrative gross financing projections. Note that these are not gilt sales forecasts, as they take no account of possible contributions to financing by NS&I or net Treasury bill sales.

Table 9
July 2015 Budget: illustrative financing projections

(£ billion)	2016-17	2017-18	2018-19	2019-20	2020-21
CGNCR (exc. NRAM, B&B, and NR) forecasts	59	34	14	-2	11
Gilt redemptions	70	79	67	93	64
Financing for the Official Reserves	6	6	6	6	0
Illustrative gross financing requirement	**135**	**120**	**87**	**97**	**75**
Figures may not sum due to rounding.					

Future provision of gilt and Treasury bill prices

On 21 January 2015, the DMO announced its strategic intention to withdraw, in due course, from the provision of gilt and Treasury bill reference prices, currently produced by the DMO on behalf of GEMMA[13] and CREST respectively.

There have been a variety of recent developments which have meant that the DMO believes that it is no longer feasible for it to continue in the provision of reference prices, in particular: changing regulatory requirements which could lead to additional costs and obligations on the DMO to comply with the relevant standards; the potential for a perceived conflict of interest in the DMO becoming an official administrator (in order to comply with administration best practice) whilst issuing and trading bonds and setting obligations for the GEMMs; and the contributing GEMMs' situation relating to the changing obligations and potential conflict of interest that they face as contributors of prices.

In light of these changing circumstances, the DMO concluded that it should take action to withdraw from the provision of reference prices. However, the DMO will continue to provide reference prices during the engagement and transition processes.

As a first step towards withdrawing from the provision of these prices, the DMO held an initial phase of engagement with market participants, data providers, market infrastructure providers and other stakeholders in order to explore with them the markets' requirements for gilt and Treasury bill prices; to build stakeholder consensus around the conditions for the DMO ceasing to provide reference prices; and to help to identify potential alternative ways that requirements can be met on a commercial basis. The engagement process included bilateral contacts as well as two large roundtable discussions, one with GEMMs and one with end investors, and was ongoing at the end of the financial year. An interim update was provided to the market on 12 March 2015 with a subsequent update on 29 May 2015.

On 31 July 2015 it was announced that the government was minded to establish a formal and independent process to review the provision of prices and to facilitate the transition to a successor arrangement through the appointment of an individual to lead the review and oversee the trasition.

[13] Gilt-edged Market Makers Association.

Chapter 3: Exchequer Cash Management

Exchequer cash management remit 2014-15

The DMO’s cash management remit for 2014-15, published alongside the Budget on 19 March 2014, specified that the government’s cash management objective is:

> “to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a cash surplus, to ensure this is used to best advantage”.

HM Treasury and the DMO work together to achieve this, with HM Treasury providing information to the DMO about flows into and out of the National Loans Fund (NLF) and the DMO making arrangements for funding and for placing net cash positions, primarily by carrying out market operations on the basis of HM Treasury forecasts.

The DMO’s cash management objective

The remit specifies that the DMO’s cash management objective is to:

> “minimise the cost of offsetting the government’s net cash flows over time, while operating within a risk appetite approved by Ministers. In so doing, the DMO will seek to avoid actions or arrangements that would:
>
> - undermine the efficient functioning of the sterling money markets; or
> - conflict with the operational requirements of the Bank of England for monetary policy implementation.”

Instruments and operations used in Exchequer cash management

In 2014-15 the DMO carried out its cash management objective primarily through a combination of:

- bilateral market operations with DMO counterparties; and
- Treasury bill sales via the DMO’s bilateral facility.

The average accepted yields achieved at the weekly Treasury bill tenders are assessed against the SONIA rates for the relevant maturities. These are reported in Annex B.

Variations in the stock of Treasury bills in market hands serve as a financing instrument within short-term debt sales. In 2014-15, Treasury bill sales contributed £8.5 billion to financing. Treasury bill tender sizes are determined with a view to meeting the end financial year target stock. Table 10 shows the split of issuance in Treasury bills by maturity at tenders over the course of the financial year.

Bilateral Treasury bill facility

Since November 2007, the DMO has had access to a facility which allows it to re-open existing Treasury bills and issue them on a bilateral basis, on request from its cash management counterparties (provided that such issuance is consistent with the DMO's cash management operational requirements). In particular, Treasury bills sold through the bilateral facility can contribute to smoothing cumulative cash positions. Monthly issuance of Treasury bills via the bilateral facility is shown in the "Other issuance" category in Table 10[14].

Table 10
Treasury bill issuance 2014-15

Month-end	One month (£ mn)	Three month (£ mn)	Six month (£ mn)	Other issuance (£ mn)	Total issuance (£ mn)	Total stock outstanding (£ mn)
Apr-14	2,500	2,500	4,000	4,078	13,078	51,204
May-14	2,000	2,000	4,000	2,118	10,118	47,897
Jun-14	6,500	4,000	5,000	1,593	17,093	48,547
Jul-14	3,500	6,000	4,000	1,077	14,577	47,368
Aug-14	2,000	6,000	5,500	553	14,053	48,413
Sep-14	8,000	8,500	9,000	2,352	27,852	60,539
Oct-14	2,000	2,500	6,500	2,597	13,597	54,912
Nov-14	2,500	5,500	8,000	1,546	17,546	59,217
Dec-14	6,500	6,000	7,000	2,752	22,252	62,995
Jan-15	2,500	4,000	5,500	2,087	14,087	60,697
Feb-15	2,000	4,000	6,500	1,102	13,602	59,239
Mar-15	6,500	9,000	9,000	463	24,963	65,453

The breakdown of the Treasury bill portfolio (including amounts issued bilaterally) at end-March 2015 is shown in Table 11.

Table 11
Treasury bills outstanding at 31 March 2015

Maturity date	Size (£mn)	Maturity date	Size (£mn)
07-Apr-15	4,500	06-Jul-15	1,000
13-Apr-15	4,026	13-Jul-15	1,501
20-Apr-15	3,850	20-Jul-15	1,501
27-Apr-15	4,012	27-Jul-15	1,520
05-May-15	3,013	03-Aug-15	1,500
11-May-15	3,004	10-Aug-15	1,500
18-May-15	3,000	17-Aug-15	1,506
26-May-15	3,000	24-Aug-15	2,000
01-Jun-15	4,001	01-Sep-15	2,000
08-Jun-15	4,000	07-Sep-15	2,000
15-Jun-15	3,520	14-Sep-15	2,000
22-Jun-15	3,000	21-Sep-15	1,500
29-Jun-15	1,500	28-Sep-15	1,500
Total			65,453

[14] From 2013-14 onwards Treasury bills sold bilaterally, i.e. for cash management purposes, are excluded from the end-year stock of Treasury bills reported in the financial arithmetic and thus are excluded from the contribution of Treasury bills to financing.

Bilateral cash management operations

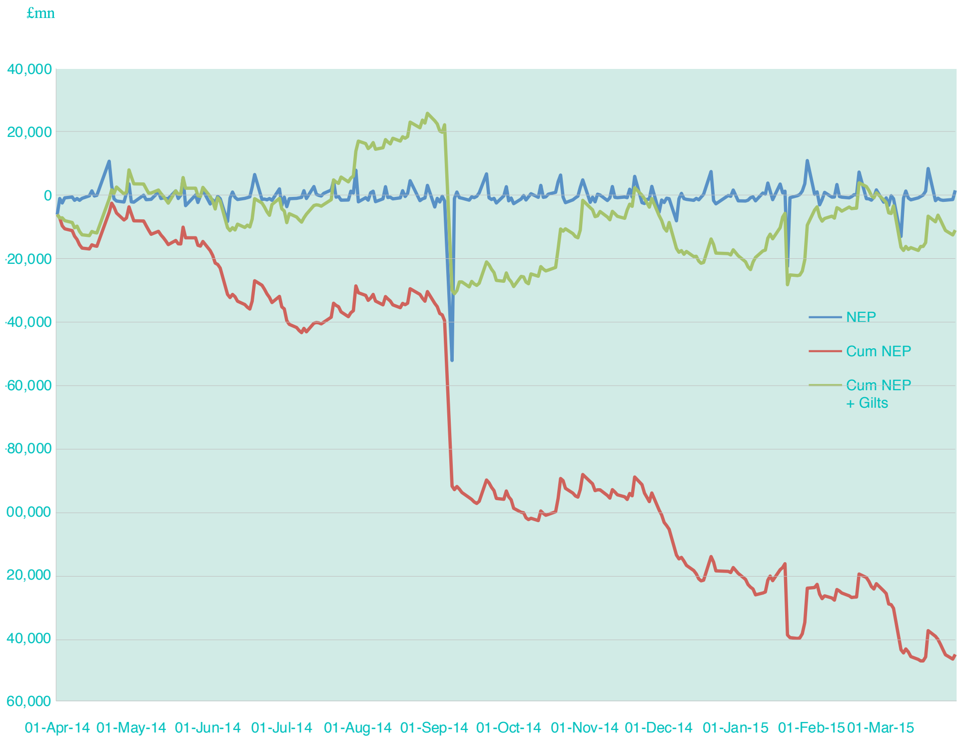
In practice, a significant portion of cash management operations in 2014-15, as in previous years, were negotiated bilaterally by the DMO with market counterparties. To ensure competitive pricing, the DMO maintains relations with a wide range of money market counterparties with whom it transacts both directly and via voice and electronic brokers.

Cash management is conducted using market instruments in order to minimise cost whilst operating within agreed risk limits. Sterling-denominated repo and reverse repo instruments currently dominate these transactions, though short-dated cash bonds, Certificates of Deposit, Commercial Paper, reverse repo of foreign currency bonds swapped into sterling, Unsecured Loans and deposits can also be used.

The DMO's money market dealers borrow from or lend to the market on each business day to balance the position in the NLF. In order to do so the DMO receives from HM Treasury forecasts of each business day's significant cash flows into and out of central government. Additionally, the DMO obtains up-to-date intra-day monitoring of cash flows as they occur. The DMO trades only with the purpose of offsetting current and forecast future government cash flows, subject to the agreed risk limits. The DMO does not take interest rate positions, except in so far as that is necessary to offset forecast future cash flows.

Over the course of a financial year, the Exchequer's cash flow has typically had a fairly regular and predictable pattern associated with the tax receipts and expenditure cycles. Outflows associated with gilt coupons and redemptions are also known in advance.

Chart 13
Exchequer cash flows 2014-15



Source: HM Treasury/DMO

Chart 13 shows the scale of daily cash flows measured in terms of the Net Exchequer Position (NEP) in 2014-15. It excludes the effects of Treasury bill issuance and NS&I's overall net contribution to financing, but highlights the major contribution of gilt sales to reducing the cumulative deficit in-year.

Active Cash Management Performance Framework

Since 2000, the in-year cash needs of the government have been managed actively by HM Treasury and the DMO with HM Treasury providing short and medium-term forecasts of daily net cash surpluses and deficits and the DMO transacting with its market counterparties in a range of instruments at a range of different maturities to offset the current and forecast future cumulative net cash position.

This active cash management framework allows the exercise of considerable discretion by specialist cash managers in selecting the appropriate counterparties, instruments and maturities with which to deliver the cash management remit at minimum cost subject to the agreed risk limits. The Cash Management Review of 2004-05[15] recommended this discretion be captured through a quantifiable measure of net interest saving as a means of enhancing effectiveness and ensuring accountability. In 2006-07 HM Treasury and the DMO announced their intention to begin formal performance reporting, commencing with the 2007-08 outturn. The results for 2014-15 are presented in Annex B under key performance indicator (KPI) 1.4.

HM Treasury and the DMO equally recognise that to measure performance solely in terms of net interest savings is a somewhat narrow interpretation that does not fully capture the ethos or the wider policy objectives the government sets the DMO as its cash manager. Exchequer cash management differs from that of a commercial entity in that it does not seek to maximise profits, but rather to minimise costs subject to risk while playing no role in the determination of sterling interest rates. Consequently the DMO and HM Treasury monitor and assess overall performance in meeting the government's objectives using a number of quantitative and qualitative KPIs and controls. A full report on performance in 2014-15 is presented in Annex B.

[15] See Chapter 5 of the Annual Review 2004-05 published in July 2005.

Chapter 4: Fund management and Central Government Lending to Local Authorities

Fund management

The origins of the Commissioners for the Reduction of the National Debt (CRND) date back to the passing of the National Debt Reduction Act of 1786. From their earliest days the Commissioners also had associations with the stock market and this led to a diversification of CRND operations, including in particular responsibility for the investment of major government funds. This now constitutes the main function of CRND, now under the auspices of the DMO.

CRND had £22.8 billion under its control at end-March 2015, representing the assets of the various investment accounts. The Commissioners themselves have not officially met in this capacity since 1860, but in June 2015, the Chancellor of the Exchequer announced plans to reconvene the Committee to discuss national deficit and debt reduction policies.

The investment powers differ to some extent from fund to fund, depending upon the provisions of the relevant Acts of Parliament or risk profiles agreed with fund owners, but essentially investments are restricted to cash deposits or government-issued and government-guaranteed securities. Currently, the largest funds are the National Insurance Fund Investment Account, the Court Funds Investment Account and the National Lottery Distribution Fund Investment Account. The main funds under CRND management at end-March 2015 were as follows:

- Court Funds Investment Account
- Insolvency Services Investment Account
- National Insurance Fund Investment Account
- National Lottery Distribution Fund Investment Account
- Northern Ireland Court Service Investment Account
- Northern Ireland National Insurance Fund Investment Account.
- Various smaller legacy administrative accounts including the Donations and Bequests Account, which processes any gifts to the nation for the purpose of debt reduction.

The Olympic Lottery Distribution Fund Investment Account was wound down in January 2015, with the residual balance on that Fund transferred to the National Lottery Distribution Fund, in accordance with statutory provisions.

CRND continues to provide an efficient, value for money service, with the main investment objectives being to maintain sufficient liquidity to meet withdrawals and to protect the capital value of the funds under management.

Lending to local authorities

Public Works Loan Board (PWLB) responsibilities and objectives

The Public Works Loan Board (PWLB) is an unpaid statutory body formed by the Public Works Loan Act 1875. Currently, the loan facility offered by the PWLB enables local authorities to have ready access to funding for capital purposes.

The work of the Board has always been carried out by civil servants and a secretariat to the Board's Commissioners has been provided by the DMO since 2002.

In April 2013, as part of the integration of PWLB work into the wider DMO, the day to day dealing transactions of PWLB, customer advice services and monthly reporting tasks were moved to a Business Operations Unit (BOU), which also has similar responsibilities in respect of Debt Management Account Deposit Facility (DMADF)[16] and CRND functions. The responsibility for collecting and reconciling PWLB loan repayments and updating PWLB static data continued to rest within the DMO settlements area.

Under the provisions of Section 54 of the Infrastructure Act 2015, the government has acquired the powers to abolish the PWLB commissioners and transfer their functions to another body under the Public Bodies Act 2011. The government plans to set out its proposals for the successor arrangements in a consultation document in due course. Any future change will modernise governance arrangements only: local authorities will continue to be able to access borrowing from central government.

PWLB operations in 2014-15

In 2014-15 loans to the value of £2.6 billion were advanced, while repayments of principal in respect of outstanding loans amounted to £1.9 billion. At end-March 2015 PWLB's loan portfolio had a nominal value of £63.9 billion and a market value of £89.2 billion.

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[16] The DMO provides the DMADF as part of its cash management operations and in the context of a wider series of measures designed to support local authorities' cash management. The key objective of the DMADF is to provide users with a flexible and secure facility to supplement their existing range of investment options while saving interest costs for central government.

Chapter 5: The DMO

The DMO was established on 1 April 1998 and aims to be a centre of excellence for HM Treasury in the provision of policy advice on and the delivery of the government's financing needs, while acting as a gateway for the government to the wholesale financial markets.

In organisational terms, the DMO is legally and constitutionally part of HM Treasury; however, as an executive agency, it operates at arm's length from Ministers. The Chancellor of the Exchequer determines the policy and operational framework within which the DMO operates, but delegates to the Chief Executive operational decisions on debt and cash management, and day-to-day management of the office.

This policy and operational framework is encapsulated within an annual financing remit that is issued to the DMO from HM Treasury before the beginning of each financial year. The timing of this remit usually coincides with the March Budget and will specify the annual total of gilt sales planned for the forthcoming financial year and a breakdown between index-linked and conventional gilts, the latter also being broken down by maturity (short (1- to 7- year), medium (7- to 15- year) and long (over 15-year)).

The remit also specifies the dates of scheduled outright auctions and provides the basis for the conduct of mini-tenders, syndications, the PAOF and any switch, conversion or buy-back operations in that particular financial year.

For each sale of gilts, by whichever method, the DMO decides on the size and the choice of gilts to be offered for sale. The DMO also decides the size and maturity breakdown of Treasury bill tenders.

Opportunities exist for the DMO remit to be revised during each financial year. This usually occurs in either April when the outturn of the CGNCR for the previous financial year is published, or in the autumn when the revised forecasts for the public finances are published in the Autumn Statement.

The separate responsibilities of the Chancellor of the Exchequer and other Treasury Ministers, the Permanent Secretary to the Treasury and the DMO's Chief Executive are set out in a published Framework Document (available on the DMO's website), which also sets out the DMO's objectives and its Chief Executive's lines of accountability. The Chief Executive is accountable to Parliament for the DMO's performance and operations, both in respect of its administrative expenditure and the Debt Management Account (DMA).

Business planning

The DMO publishes an annual Business Plan that sets out the DMO's targets and objectives for the year ahead, and the strategies for achieving them. This document also reviews the preceding year's achievements. The DMO's business plan is drafted taking into account the organisation's strategic objectives issued by the Chancellor of the Exchequer, which are set out in the Framework Document.

Organisation and resources

The DMO is organised flexibly to ensure that resources are available as necessary for the respective requirements of each business area, taking into account budget constraints and the priority of delivery objectives.

The DMO consists of two main operational areas: Policy & Markets and Operations & Resources. These areas are in turn split into a number of business teams across which there is substantial cross-team cooperation to ensure that both policy and operational requirements are adequately met by ensuring that the relevant skills are applied to appropriate activities and that essential operations are resourced efficiently and effectively.

The DMO's Managing Board considers all major strategic decisions and at 31 March 2015 comprised the Chief Executive, the Head of Policy and Markets (who is also the Deputy Chief Executive), the Chief Operating Officer and three non-executive directors: Brian Larkman, Brian Duffin and an HM Treasury representative, James Richardson.

The role of the DMO's Managing Board is supplemented by a number of internal committees supporting individual business activities and overarching governance procedures. In particular, committees discuss activities relating to debt management, cash management and fund management, which are all supported by a Credit and Market Risk Committee, an Operational Risk Committee and a Business Delivery Committee. The DMO also has an independent audit committee that oversees matters relating to risk, internal control and governance.

Managing risk

The processes the DMO employs to manage its risks are subject to continual review and development to ensure their continued effectiveness. Of particular note has been the development of a comprehensive risk management framework to address all risks the DMO faces. This includes risk committees which cover credit and market risk, operational risk and risk controls.

Financial performance

The operational budget within which the DMO performs its functions is approved annually by Parliament and forms part of HM Treasury's Supply Estimate. The budget is approved taking into account the administrative and operational cost of running the DMO and the income received from business activities.

Details of the financial performance against this budget can be found in the DMO's Annual Report and Accounts, which is available on the DMO website[17]. This document provides separate accounts of both the DMO and the DMA, through which trading activity in gilts and the other treasury management activities of the DMO are recorded.

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[17] http://www.dmo.gov.uk/documentview.aspx?docname=publications/annualreports/dmodmarep2015.pdf&page=Annual_Report

Operating costs

The DMO's net operating cost for 2014-15 was £17.6 million, a change of less than £0.1 million since 2013-14. This was affected by several factors including changes in costs and income.

The DMO successfully managed its operations within the expenditure limits agreed with HM Treasury and voted by Parliament.

The DMO's contribution to the government's activities to support financial markets and the UK banking sector

During 2014-15, the DMO continued to undertake a range of activities at the request of HM Treasury that had been put in place to help businesses access cheaper finance. This involved participation in the schemes listed below alongside HM Treasury and the Bank of England.

i) National Loan Guarantee Scheme (NLGS)

HM Treasury launched the National Loan Guarantee Scheme on 20 March 2012. The scheme is aimed at helping businesses access cheaper finance by reducing the cost of bank loans. During the year, the DMO administered the scheme on behalf of HM Treasury. The related assets, liabilities, income and expenditure arising from these guarantees are recorded in the accounts of HM Treasury.

ii) Funding for Lending Scheme (FLS)

Under the Funding for Lending Scheme, the DMO may lend Treasury bills to the Bank of England for a fee. The DMO establishes, and subsequently refreshes monthly, the stock of Treasury bills available for this scheme by purchasing specially created Treasury bills from the NLF in quantities informed by the Bank of England's estimates of future demand. Held by the DMA, the Treasury bills earn interest from the NLF. Treasury bills loaned to the Bank of England are returned on or before the due date. By agreement with HM Treasury, stock lending fees received from the Bank of England, less recovery of costs to cover HM Treasury and DMO involvement in the scheme, are paid to the DMA.

At 31 March 2015, the DMA held Treasury bills to facilitate this scheme with a value of £77.9 billion.

iii) Discount Window Facility

Under the Discount Window Facility, the DMO may lend gilt-edged securities to the Bank of England for a fee, so that it may swap them with participating banks for eligible collateral.

iv) Asset Purchase Facility

The DMO met the funding requirements of the part of the Bank of England's Asset Purchase Facility used to purchase high-quality private sector assets. During 2014-15, the Bank of England lent to the DMA specific gilts purchased via the Asset Purchase Facility in return for other gilts of the same value in delivery by value (DBV) transactions.

UK Sovereign Sukuk

The Prime Minister announced at the World Islamic Economic Forum in October 2013 that HM Treasury was working on the practicalities of issuing £200 million of sovereign Sukuk (Islamic bonds). In the following months, the DMO worked alongside HM Treasury in taking this initiative forward.

In January 2014, HSBC and Linklaters were appointed by HM Treasury as structuring and legal advisers respectively, to work with it to issue UK sovereign Sukuk in financial year 2014-15. As set out in the tender process, the structuring bank was also appointed to act as a Joint Lead Manager at the later syndication stage.

An open and competitive process to appoint a syndicate of banks as Joint Lead Managers (alongside HSBC) was launched on 23 May 2014. On 12 June 2014, the government announced that it intended to issue the Sukuk in the coming weeks, subject to market conditions, and confirmed the appointment of Barwa Bank, CIMB, the National Bank of Abu Dhabi and Standard Chartered as Joint Lead Managers for the sale alongside HSBC.

A series of roadshows took place in the week beginning 17 June 2014, at which officials from HM Treasury and the DMO met with potential investors in the Middle East, Asia and London.

On 25 June 2014, the government[18], acting through the DMO, launched the sale of £200 million of 5-year Sukuk by syndication. The order book managed by the Joint Lead Managers opened at 8.30am with indicative price guidance for investors at a spread of 0 bps to 2 bps above the reference gilt, 1¾% Treasury Gilt 2019. The Joint Lead Managers announced at around 10 am that the value of orders in the book was approaching £2 billion. At 10.30 am the Joint Lead Managers announced that the value of orders in the book was in excess of £2 billion, that the price guidance had been tightened to flat to gilts (0 bps) and that the book would close at 10.45 am. The final order book was high quality and well diversified, closing with 75 orders totalling around £2.3 billion. Allocations were made to a wide range of investors including sovereign wealth funds, central banks and domestic and international financial institutions. Investors from the major centres for Islamic finance in the Middle East (37%), Asia (24%) and the UK (39%) were all represented in the final allocation. The Sukuk were priced flat to the reference gilt, with a profit rate of 2.036%.

With the Sukuk being issued on 2 July 2014, the UK became the first country outside the Islamic world to issue sovereign Sukuk. The Sukuk were listed on the London Stock Exchange, and shortly after issuance, the Bank of England announced that the Sukuk would be eligible for use in its sterling money market operations. The Sukuk will mature on 22 July 2019.

[18] HM Treasury UK Sovereign Sukuk PLC, the Special Purpose Vehicle wholly owned by the Treasury Solicitor on behalf of HM Treasury.

Annexes:

A) List of GEMMs and Inter Dealer Brokers (IDBs) at 31 March 2015

B) Debt and cash management performance

C) The gilt portfolio

A: List of GEMMs and IDBs at 31 March 2015

(All are market-makers in both conventional and index-linked gilts)

GEMM	Website
BofA Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ	www.baml.com
Barclays Bank plc^ 5 The North Colonnade Canary Wharf London E14 4BB	www.barclays.com
BNP Paribas (London Branch) 10 Harewood Avenue London NW1 6AA	www.bnpparibas.com
Citigroup Global Markets Limited Citigroup Centre 33 Canada Square London E14 5LB	www.citigroup.com
Credit Suisse Securities One Cabot Square London E14 4QJ	www.credit-suisse.com
Deutsche Bank AG (London Branch) Winchester House 1 Great Winchester Street London EC2N 2DB	https://gm-secure.db.com
Goldman Sachs International Bank Peterborough Court 133 Fleet Street London EC4A 2BB	www.gs.com

HSBC Bank PLC^ www.hsbcgroup.com
8 Canada Square
London
E14 5HQ

Jefferies International Limited* www.jefferies.com
Vintners Place
68 Upper Thames Street
London
EC4V 3BJ

JP Morgan Securities PLC www.jpmorgan.com
25 Bank Street
Canary Wharf
London
E14 5JP

Lloyds Bank plc www.lloydsbankcommercial.com
10 Gresham Street
London
EC2V 7AE

Morgan Stanley & Co. International plc www.morganstanley.com
20 Cabot Square
Canary Wharf
London
E14 4QW

Nomura International plc www.nomura.com
One Angel Lane
London
EC4R 3AB

Royal Bank of Canada Europe Limited www.rbccm.com
Thames Court
One Queenhithe
London
EC4V 3DQ

Royal Bank of Scotland^ www.rbsmarkets.com
135 Bishopsgate
London
EC2M 3UR

Santander Global Banking & Markets UK www.santander.com
2 Triton Square
Regent's Place
London
NW1 3AN

Scotiabank Europe plc
201 Bishopsgate
London
EC2M 3NS
www.scotiabank.com

Société Générale Corporate & Investment Banking
SG House
10 Bishop's Square
London
E1 6EG
www.sgcib.com

The Toronto-Dominion Bank (London Branch)*
60 Threadneedle Street
London
EC2R 8AP
www.td.com

UBS Limited
100 Liverpool Street
London
EC2M 2RH
www.ubs.com/investmentbank/

Winterflood Securities Limited*^
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA
www.wins.co.uk

* Retail GEMM
^ Strips market participant

Inter Dealer Brokers

BGC Brokers L.P
One Churchill Place
Canary Wharf
London
E14 5RD
www.bgcpartners.com

BrokerTec Europe Limited
2 Broadgate
London
EC2M 7UR
www.icap.com

Dowgate
6th Floor
Candlewick House
120 Cannon Street
London
EC4N 6AS
www.ksbb.com

GFI Securities
1 Snowden Street
London
EC2A 2DQ
www.gfigroup.com

ICAP WCLK Limited
2 Broadgate
London
EC2M 7UR
www.icap.com

Tullett Prebon Gilts
155 Bishopsgate
London
EC2N 3DA
www.tulletprebon.com

B: Debt and cash management performance

This Annex includes data on performance of the DMO in executing the gilt financing and Exchequer cash management remits in 2014-15.

The gilt data compares the actual cost of gilt issuance (measured by the average yield at which gilts were sold as prescribed by the DMO's financing remit) with illustrative counterfactual costs of different patterns of gilt financing; it also looks at the performance of gilt auctions by comparing the average accepted/strike price of an auction with the prevailing secondary market price levels.

Table 4 on page 19 of this Review reports on the average cover ratios at all gilt auctions in 2014-15 and on the concentration of bidding (the tail) at conventional gilt auctions.

The cash management material comprises a formal report on compliance with the DMO's published Key Performance Indicators (KPIs) in respect of Exchequer cash management and a comparison of the average yields achieved at weekly Treasury bill tenders with the prevailing SONIA rate for comparable maturities.

Other aspects of the DMO's performance each financial year are reported in the DMO's Annual Report and Accounts[19]. These comprise (page references refer to the 2014-15 Accounts published on 2 July 2015):

- A review of the DMO's main activities (pages 18-21);
- A report on achievements against agency objectives as set by HM Treasury (pages 22-23);
- A report on performance against agency targets (pages 24-27), including:
    - Compliance with the financing remit.
    - Gilt and Treasury bill operation results - release times.
    - Accuracy of the recording of transactions through the Debt Management Account.
    - Compliance with the Freedom of Information Act.
    - Avoidance of breaches of operational notices.
    - Compliance with the schedule for reporting cash management operational balances.
    - Accurate and timely administration of settlement procedures.
    - Accuracy of publications and timeliness of announcements.
    - Timeliness of processing of local authority loan and early repayment applications.
    - Appropriate operation of the DMO (retail) gilt purchase and sales service.
    - Appropriate administration of the National Loan Guarantee Scheme.

[19] The Annual Report and Accounts for 2014-15 are available at:
http://www.dmo.gov.uk/documentview.aspx?docname=publications/annualreports/dmodmarep2015.pdf&page=Annual_Report

a) Gilt issuance counterfactuals

Since 2001 the DMO has published in its Annual Reviews the results of its measurement of relative performance of outright issuance in each financial year against counterfactuals. Although the UK's debt management objective is concerned with minimising the cost of issuance "over the long term" rather than in any one year, the intention here is to illustrate whether different non-discretionary issuance patterns during a particular year could have resulted in higher or lower costs of financing.

The calculations compare the cash weighted yield of actual issuance with the yield on various counterfactual issuance patterns but on the basis of a key assumption that the different issuance patterns modelled would not have impacted the levels of yields relative to those achieved in practice (see below).

There are a number of limitations to this analysis. In particular, a major assumption that is unlikely to hold in practice is that the shape of the yield curve remains fixed over time. This is particularly relevant when considering the refinancing timeframes associated with different maturities of debt (i.e. short issuance needs to be refinanced much more frequently than long issuance) so this analysis is not comparing like-for-like in this regard. In principle, therefore, if yields evolve as reflected by the forward yield curve it would be too simplistic to say that in any one year one issuance pattern has outperformed another.

Another relevant assumption is that the counterfactual issuance patterns themselves would not have had any impact on yields. This is unlikely to hold in practice particularly where the gilt issuance pattern under the counterfactual is significantly different from actual issuance (e.g. a heavy skew to a certain maturity). Whilst it is likely, certainly over the medium to longer-term, that the greatest influences on the level of yields will be macro-economic conditions, market expectations of interest rates, and other external factors over which the debt manager has no control, establishing the extent to which changes in volumes and patterns of supply might affect yields is more difficult.

The underlying rationale for considering issuance performance against counterfactuals is that it provides one means by which to analyse the performance of the debt management authorities in achieving the debt management objective, in particular regarding the decisions on the split between maturities/types of gilt sold in a given year. It is worth noting in this context that measuring performance against the primary debt management objective is not straightforward, a fact widely acknowledged by many other sovereign debt managers. Hence, presentation of annual counterfactuals should not be interpreted as a complete or authoritative means by which to test achievement against the debt management objective – which as noted above is a long-term test.

For these reasons, caution is required when interpreting the yield impact of counterfactual issuance patterns set out in this annex in comparison with the actual issuance yield. The cash weighted average yield of actual issuance at the gilt auctions, syndicated offerings and mini-tender in 2014-15 was 2.407%[20] (11.8 bps lower than the 2.525% in the previous financial year). The cash weighted average yield of issuance by type of gilt and maturity is shown in Table B1.

Table B1
Average issuance yield by type and maturity of gilt 2014-15

	Proceeds (£mn)	Yield (%)
All issuance	126,420	2.407
By maturity		
Short (Conv+ILG)	35,128	1.722
Medium (Conv+ILG)	32,951	2.344
Long (Conv+ILG)	58,341	2.826
Conventional		
Short	31,879	1.741
Medium	28,152	2.346
Long	34,105	3.000
Total conventional	94,136	2.378
Index-linked		
Short	3,294	2.073
Medium	4,799	2.331
Long	24,237	2.581
Total Index-linked	32,284	2.492

The actual yield of 2.407% can be compared with yields derived by applying the actual annual cash weighted yield of different maturities/types of gilt to different gilt issuance patterns. Table B2 contrasts the actual average issuance yield in 2014-15 with three counterfactuals which assume the same yields by maturity and type as shown above, but with alternative issuance skews, namely:

a) a significantly greater skew towards short issuance;
b) completely even-distribution approach to financing; and
c) a significantly greater skew towards long issuance.

Table B2
Illustrative average issuance yields assuming different issuance patterns

	Actual	Shorter	Even	Longer
Short	25.2%	55.0%	25.0%	15.0%
Medium	22.3%	15.0%	25.0%	15.0%
Long	27.0%	15.0%	25.0%	55.0%
Index-linked	25.5%	15.0%	25.0%	15.0%
Ave. yield	**2.407**	**2.134**	**2.395**	**2.636**
Difference (bps)		-27.4	-1.2	22.9

The even-split approach to financing by maturity produces an average yield of issuance very close to actual (just 1.2 bps lower). The skews much longer and shorter both produce implied yields significantly different to the actual (-27 bps in the case of the shorter option and +23 bps in the case of the longer). This is to be expected, given the upward slope of the yield curve.

[20] Index-linked real yields have been converted to nominal equivalents, assuming 3% RPI inflation.

The results from counterfactual modelling of this kind need to be considered in the context of an objective that requires the DMO (and many other sovereign issuers with similar objectives) to pursue policies designed to minimise long-term cost whilst taking account of the risks to which debt issuance exposes the Exchequer – i.e. the DMO does not seek exclusively to minimise yield at the expense of other considerations. In order to determine the maturity and composition of debt issuance, the government takes into account a number of factors including:

- the government's own appetite for risk, both nominal and real;
- the shape of both the nominal and real yield curves; and
- investors' demand for gilts.

b) Auction concession analysis

There are a number of ways to measure auction concessions. The method presented in Table B3 shows the extent of any concession/premium in the immediate run up to auctions by measuring the difference between the actual proceeds received and those that would have been generated had each auction been priced at the mid-price in the secondary market at the close of bidding.

Table B3
Concessions (-) and premia ahead of gilt auctions in 2014-15

Date	Gilt	Concession (-)/ Premium (£mn)
02-Apr-14	3¼% Treasury Gilt 2044	3.3
08-Apr-14	0¾% IL 2034	1.2
24-Apr-14	1¾% Treasury Gilt 2019	1.2
29-Apr-14	2¾% Treasury Gilt 2024	1.3
07-May-14	0⅛% IL 2044	2.4
15-May-14	4½% Treasury Gilt 2034	1.4
28-May-14	0¼% Q IL 2052	4.6
03-Jun-14	1¾% Treasury Gilt 2019	1.4
10-Jun-14	2¾% Treasury Gilt 2024	0.8
12-Jun-14	0⅛% IL 2019	2.7
01-Jul-14	1¾% Treasury Gilt 2019	1.3
08-Jul-14	4% Treasury Gilt 2060	2.3
17-Jul-14	0⅛% IL 2024	2.1
22-Jul-14	2¾% Treasury Gilt 2024	1.5
06-Aug-14	0⅛% IL 2019	0.6
12-Aug-14	4¾% Treasury Gilt 2030	1.3
21-Aug-14	2¾% Treasury Gilt 2024	1.6
27-Aug-14	0⅝% IL 2040	1.9
02-Sep-14	2% Treasury Gilt 2020	0.2
09-Sep-14	0¼% IL 2052	-0.5
11-Sep-14	3½% Treasury Gilt 2045	1.3
01-Oct-14	2% Treasury Gilt 2020	1.5
07-Oct-14	3½% Treasury Gilt 2045	2.9
16-Oct-14	0⅛% IL 2024	-0.4
21-Oct-14	2¾% Treasury Gilt 2024	1.1
04-Nov-14	0½% IL 2050	2.6
13-Nov-14	2¾% Treasury Gilt 2024	0.8
20-Nov-14	0⅝% IL 2042	1.9
02-Dec-14	2% Treasury Gilt 2020	1.8
09-Dec-14	3½% Treasury Gilt 2045	2.3
11-Dec-14	0¾% IL 2034	3.8
06-Jan-15	2¾% Treasury Gilt 2024	1.1
07-Jan-15	0⅛% IL 2044	-3.4
15-Jan-15	4½% Treasury Gilt 2034	2.0
20-Jan-15	2% Treasury Gilt 2020	1.4
04-Feb-15	0⅛% IL 2024	2.6
11-Feb-15	3½% Treasury Gilt 2045	2.8
03-Mar-15	2% Treasury Gilt 2020	1.0
10-Mar-15	3½% Treasury Gilt 2068	2.4
12-Mar-15	1⅛% IL 2037	3.1
19-Mar-15	2% Treasury Gilt 2025	0.9
	Aggregate all auctions	65.8
	Average all auctions	1.6
	Average conventional auctions	1.6
	Short-dated conventional auctions	1.2
	Medium-dated conventional auctions	1.2
	Long-dated conventional auctions	2.2
	Average Index-linked auctions	1.7

An aggregate premium of £65.8 million occurred across all 41 auctions in 2014-15 (an average premium of £1.6 million per auction); this compares with an average concession of £1.8 million in 2013-14. The average premia at conventional and index-linked auctions were almost the same. Concessions were only recorded at three auctions.

The largest premium was £4.6 million at the auction of IL 2052 on 28 May 2014 and the largest concession was -£3.4 million at the auction of IL 2044 on 7 January 2015.

c) The DMO's cash management objective: performance report

The DMO's high level cash management objective as set out in Chapter 3 has been subdivided into a series of objectives, to each of which has been attached a Key Performance Indicator (KPI). The following section explains how performance was delivered against these objectives in 2014-15.

Objective 1.1: DMO must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.

The core requirement of Exchequer cash management is to secure the day to day funding of Exchequer cash needs. This objective is supported by HM Treasury's daily net cash flow forecasts for 19 weeks ahead and intraday updates of same-day scheduled expenditure and revenue flows. The DMO cash dealers raise and place current and future anticipated net daily balances in the Debt Management Account (DMA) with counterparties in the sterling money markets, transacting in a range of instruments and at a range of different maturities to smooth the profile of the forecast cumulative net cash position.

Table B4
Components of the cash management objective

CASH MANAGEMENT OBJECTIVE	KEY PERFORMANCE INDICATORS & CONTROLS
The Debt Management Office (DMO) must supply sufficient cash each day to enable government to meet its payment obligations. This is fundamental and unconditional.	Ways and Means transfers must be avoided for cash management purposes by ensuring that there is always a positive Debt Management Account (DMA) balance. (NB: HM Treasury is responsible for monitoring and reporting performance of the forecasting function against outturns).
Cash management operations and arrangements should be conducted in a way that does not interfere with monetary policy operations.	The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations.
Cash management operations and arrangements should be conducted without impeding the efficient working of the sterling money markets.	The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.
The DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation.	The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, its active management performance against the government's marginal cost of funds and the market and credit risks incurred. Performance may also be reported in the DMO Annual Review.
The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a cash management system that is sustainable.	The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.

The DMA is used to manage the Exchequer's net cash position. Balances in central government accounts contained within the Exchequer pyramid are swept on a daily basis into the NLF and the DMA is required to offset the resultant NLF balance through its borrowing and lending in the money markets. The DMA is held at the Bank of England and a positive end of day balance must be maintained at all times; it cannot be overdrawn. Automatic transfers from the government Ways and Means (II) account at the Bank of England would offset any negative end of day balances, though it is an objective to minimise such transfers. Thus, evidence of meeting this objective is provided by reference to the number of occasions the DMA goes overdrawn.

KPI 1.1: Ways and Means end-of-day transfers for cash management purposes must be avoided by ensuring that there is always a positive DMA balance.

- The DMO ensured a positive end-of-day DMA balance for all of 2014-15.

Objective 1.2: Cash management operations and arrangements should be conducted in a way that does not conflict with the operational requirements of the Bank of England for monetary policy implementation.

The DMA target balance at the Bank of England serves solely as a buffer against unexpected payments that occur after the wholesale money markets have closed for same-day settlement. It serves to mitigate the risk of going overdrawn. All changes to the daily net cash forecast that occur before markets are closed should be transacted by DMO cash dealers with market counterparties. The DMO cash forecasters are required to notify the Bank of England, in advance of its weekly round of open market operations, of the weekly target balance on the DMA for the week ahead. This contributes to the forecast money market shortage and hence it is important that actual cumulative end-of-day balances do not differ significantly from target.

KPI 1.2: The DMO will conduct market operations with a view to achieving, within a very small range, the weekly cumulative target balance for the DMA at the Bank of England. The DMO will maintain formal and informal channels of communication with the Bank on conditions in the sterling money markets. The DMO will seek to avoid holding weekly or ad hoc Treasury bill tenders when the Bank conducts its weekly open market operations.

- The DMO achieved its target weekly cumulative balance for the DMA within a very small range (+/-2% of its weekly cumulative target) in 36 out of 52 weeks in 2014-15. In all cases, balances outside this range related to events beyond the DMO's control, largely unexpected late cash flows either on the final day of the week or over long weekends. All significant known daily and forecast cumulative weekly variations from target were notified to the Bank of England in a timely fashion. The DMO and the Bank held regular meetings to review the operation of these arrangements.
- No cash management operations were undertaken that by their nature or timing could be perceived as clashing with the Bank's open market operations.

Objective 1.3: Cash management operations and arrangements should be conducted to avoid undermining the efficient functioning of the sterling money markets.

While this objective is difficult to capture in a KPI, the DMO interprets this as a responsibility to seek to minimise the impact of individual daily flows on the sterling money markets while ensuring it deals at competitive prices. The DMO operates as a customer at the core of the money markets, seeking to ensure the widest possible access to maturities, instruments, trading arrangements and counterparties across which to diversify its cash management operations. Limits have been set on the amount of dealing with individual counterparties and in individual instruments; exposure to sterling overnight liquidity and sterling interest rates are also subject to limits. In accordance with objective 1.3, limits and controls are intended to avoid concentration of exposures and are reviewed regularly to ensure consistency with market trends and developments; they find their expression in KPI 1.3.

KPI 1.3: The DMO will advise HM Treasury as appropriate on the impact of Exchequer cash flows on liquidity conditions in the sterling money markets.

- Throughout 2014-15, the DMO undertook regular formal and informal communication with the Bank of England, money market counterparties, and industry groups to assess liquidity in the sterling money markets. It also maintained frequent and regular dialogue to update HM Treasury on market liquidity and, working with HM Treasury, reviewed its trading policies and risk controls to respond to significant sterling liquidity trends and developments.

Objective 1.4: The DMO should maintain a system in which the costs and risks are transparent, measured and monitored and the performance of government cash management is assessed. The DMO maintains an ethos of cost minimisation rather than profit maximisation.

The active cash management framework encompasses a series of quantitative liquidity, interest rate, foreign exchange and credit risk limits that together reflect the government's risk preferences and are designed to be consistent with the wider policy objectives the government sets its cash manager.

Under the current approach active cash performance is measured and evaluated directly by comparing actual net interest paid and received with cost of funds (i.e. deducting net interest on daily balances at the Bank of England repo rate and deducting transaction and management costs).

KPI 1.4: The DMO will report to HM Treasury on a quarterly basis the details of its cash management activity, including active cash management performance after cost of funds and the liquidity, interest rate, foreign exchange and credit risks incurred. Performance may also be reported in the DMO Annual Review.

- The DMO reports to the Treasury on a quarterly cycle the details of its cash management activity, including active cash management performance and usage of liquidity, interest rate, foreign exchange and credit risk limits.

- Net returns (over cost of funds) will be affected by market conditions and the size and volatility of the Exchequer's cumulative cash position, both of which will vary significantly over time.

- Results should be interpreted in the context of the government's ethos of cost minimisation and not profit maximisation: cash transactions are solely intended to smooth a given cash flow profile over time and across products and instruments, within agreed risk parameters, and are not intended to seek opportunities to generate excess return.

- Active cash management earned positive net interest after cost of funds, but before transaction and management costs, of £12.0 million for 2014-15 compared with £12.1 million for 2013-14. The DMO's estimated transaction and management costs during 2014-15 were £9.4 million.

- Positive net interest after cost of funds has been earned by virtue of funding the Exchequer's daily cash needs in the wholesale money markets at rates that have been on average significantly below the prevailing Bank Rate and from investing surpluses at market rates that were on average marginally below Bank Rate.

- There were no breaches of the credit, interest rate, foreign exchange or liquidity risk limits in 2014-15.

Objective 1.5: The DMO should maintain a credible reputation in the market that leads to lower costs in the long term and a system that is sustainable.

The DMO seeks to maintain and enhance its reputation in the market by being open, transparent and consistent about the aims and intentions of its operations and transactions. This has allowed it to continue to widen its market and counterparty access and to deal at fair and competitive rates.

In addition, DMO personnel, processes and internal systems have to be capable of complying with market standards and following market practice in respect of speed and accuracy in negotiation, clearing and settlement of trades.

KPI 1.5: The DMO should maintain channels of communication with money market participants and Treasury bill counterparties both formally and informally to explain, as far as possible, the nature and intent of its operations in the money markets. The DMO should monitor compliance with its operational notices; provide complete, accurate and timely instructions to counterparties, agents, external systems and operators; and achieve the successful settlement of agreed trades on the due date.

- As stated in the report on KPI 1.3 above, in 2014-15 the DMO maintained an active and open dialogue with cash counterparties and other market stakeholders to explain its cash management approach and strategy and to explain the context for and receive feedback on Treasury bill tenders and other market operations.

- There were no breaches of cash management operational targets for trade settlement (percentage by value on the due date[21]) or the timing of the announcement of Treasury bill tender results[22]. There were no breaches of the cash management operational notice in 2014-15.

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[21] The target is to settle at least 99% of trades by value on the due date: the level achieved was 99.8%.
[22] The target is to release tender results within 15 minutes: the average release time was 5.4 minutes.

d) Treasury bill tender performance

Table B5 and Charts B1-3 compare the results (in terms of the average accepted yield) of all Treasury bill tenders held in 2014-15 with the corresponding SONIA rates. Over the financial year the average accepted yields at the one- and three-monthly tenders outperformed the corresponding SONIA rates by between 5.4 and 8.3 bps. Six-month maturity tenders marginally underperformed relative to SONIA, by 0.6 bps. This may reflect the fact that the average size of six-month Treasury bill tenders was larger than those of the two shorter maturities (although the average cover ratio at six-month tenders was only a little lower than at one- and three-month tenders - see Table B6).

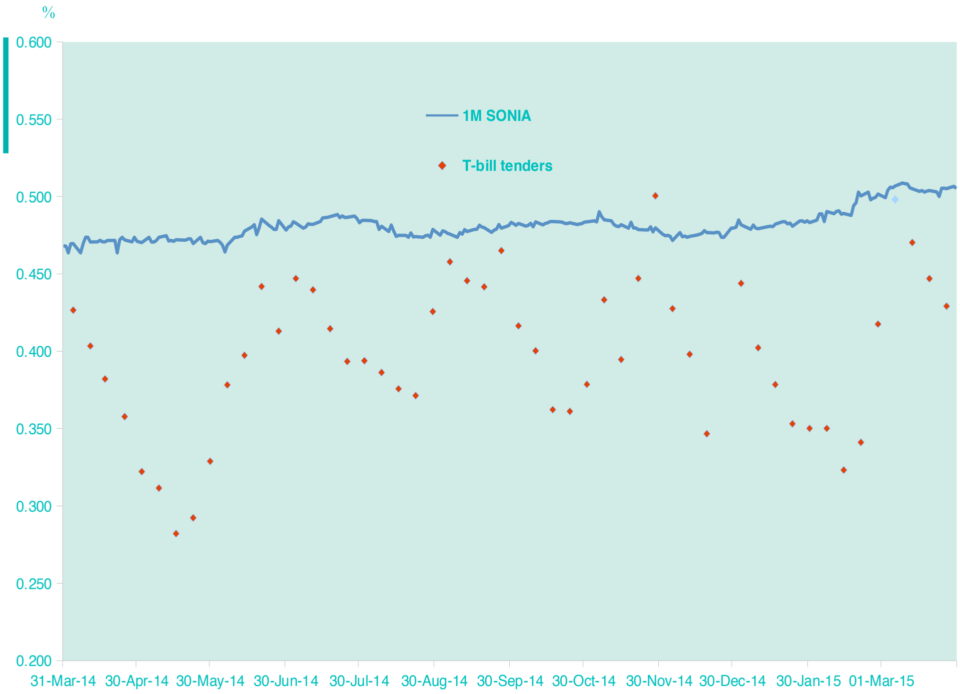
Table B5
Comparison of average tender yields with SONIA rates in 2014-15

	Average tender yield (%)	Average SONIA rate (%)	Difference (bps)
One-month	0.350	0.433	-8.3
Three-month	0.387	0.441	-5.4
Six-month	0.475	0.469	0.6
Average	**0.404**	**0.448**	**-4.4**

Table B6
Comparison of average tender sizes and cover ratios

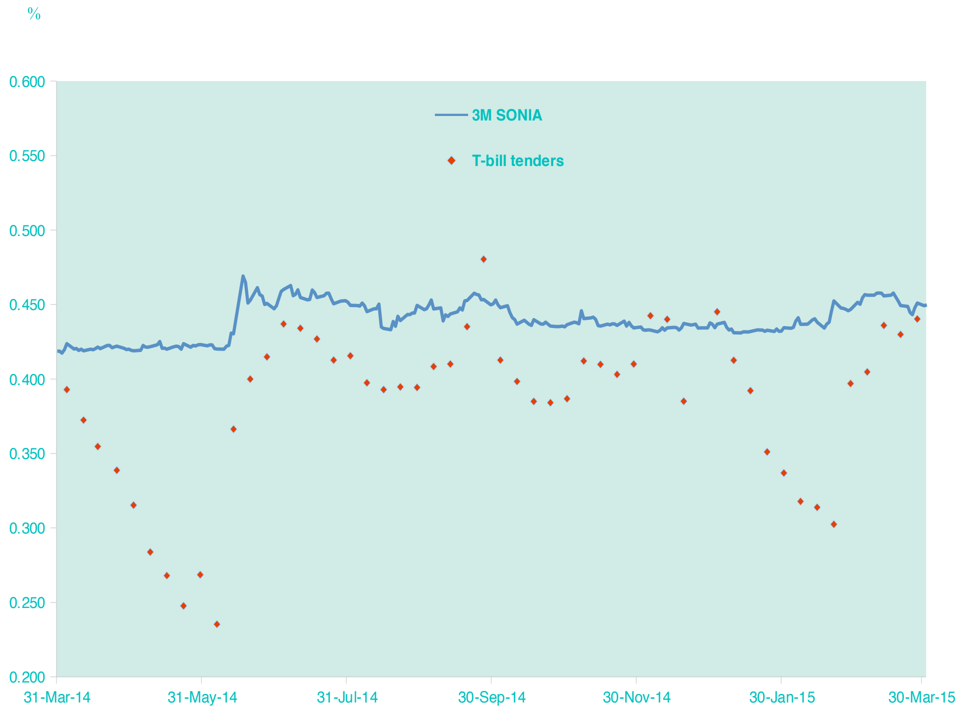
	Average tender size (£mn)	Average cover ratio
One-month	912	3.48
Three-month	1,176	3.47
Six-month	1,451	3.28

Chart B1
One-month tender yields compared with SONIA rates in 2014-15



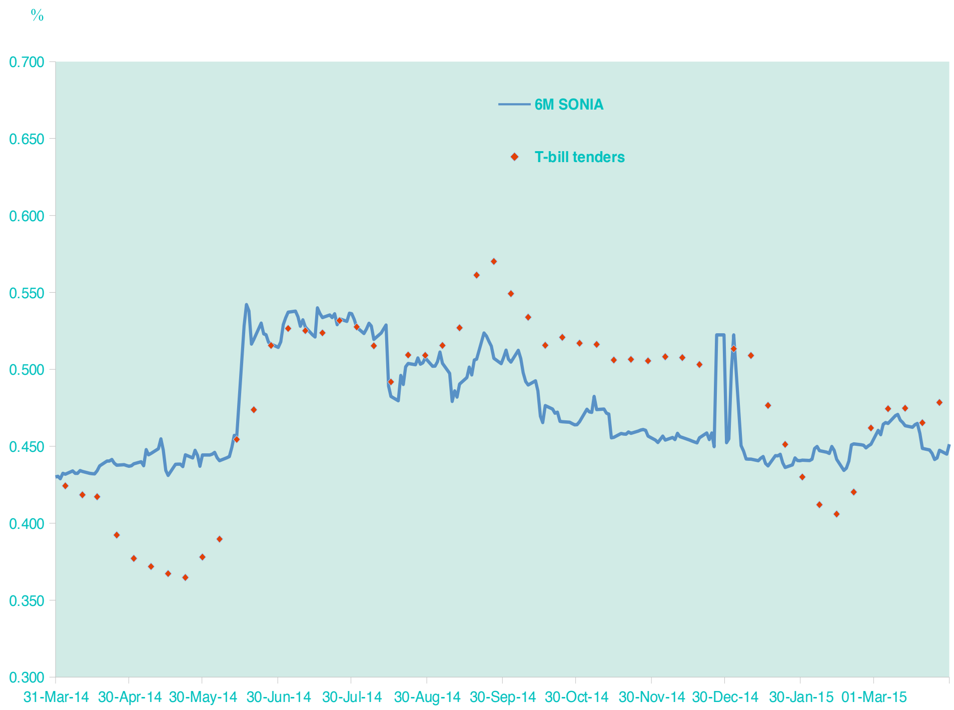
Source: DMO/Bloomberg

Chart B2
Three-month tender yields compared with SONIA rates in 2014-15



Source: DMO/Bloomberg

Chart B3
Six-month tender yields compared with SONIA rates in 2014-15



Source: DMO/Bloomberg

C: The gilt portfolio

a) The gilt portfolio

The key statistics of the gilt portfolio at end-March 2015 compared with the position at the end of the previous financial year are shown in Table C1 below. Figures in the "Net" columns next to the nominal and market values of the gilt portfolio are the corresponding totals excluding central government holdings.

Table C1
Key gilt portfolio statistics

	End-March 2014		End-March 2015	
	Gross	Net	Gross	Net
Nominal value of the debt portfolio (£bn)	1421.92	1301.24	1493.12	1365.85
Nominal value of the gilt portfolio (£bn)	1365.02	1244.35	1427.66	1300.40
- Conventional (£bn)	1039.04	928.90	1069.88	953.40
- Index-linked (£bn)	325.98	315.45	357.78	347.00
Market value of the debt portfolio (£bn)	1603.00	1460.62	1875.90	1710.57
Market value of the gilt portfolio (£bn)	1546.15	1403.77	1810.51	1645.18
- Conventional (£bn)	1150.62	1021.69	1310.45	1159.34
- Index-linked (£bn)	395.54	382.08	500.06	485.84
Average portfolio yield (market-value weighted)				
- Conventional	2.33%	2.32%	1.50%	1.50%
- Index-linked	-0.35%	-0.34%	-1.03%	-1.02%
Average maturity of the debt portfolio (years) (market-value weighted)	14.91	15.00	16.24	16.39
Average maturity of the gilt portfolio (years) (market value weighted)	15.45	15.60	16.82	17.03
- Conventional gilts	13.55	13.46	14.77	14.72
- Index-linked gilts	20.98	21.33	22.21	22.54
Average modified duration (years) (market-value weighted)				
- Conventional gilts	8.96	8.91	10.16	10.14
- Index-linked gilts	19.21	19.55	20.81	21.14

A list of gilts, including first issue and coupon dates and nominal amounts outstanding (updated daily) is available on the DMO website at:
http://www.dmo.gov.uk/ceLogon.aspx?page=D1A&rptCode=D1A

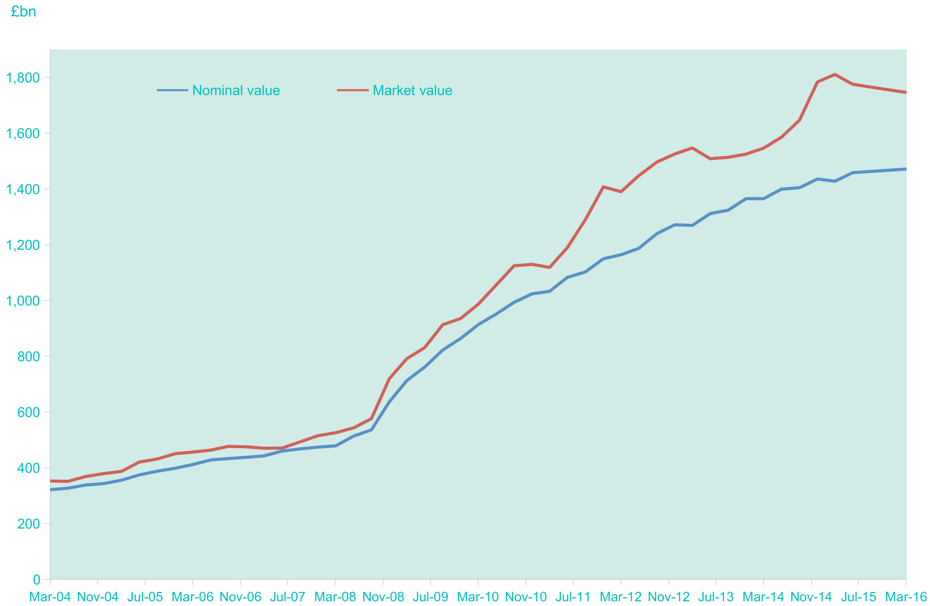
The nominal value[23] of the gilt portfolio rose by 4.6% to £1,427.7 billion as gross gilt issuance exceeded gilt redemptions. The market value of the portfolio rose, however, by 17.0% to £1,875.9 billion, as prices rose significantly over the year (as evidenced by the sharp fall in gilt yields shown in Table C1).

The size of the gross gilt portfolio is larger as a result of the creation (since 2008-09) of £127 billion of gilt collateral for the DMO's Exchequer cash management operations and the Bank of England's Discount Window Facility. The gilt collateral is held on the DMA and the "Net" data above exclude these holdings.

[23] Including inflation uplift on index-linked gilts.

Chart C1 shows the nominal and market values of the gilt portfolio at end-March in each year since 2004 and projected to end-March 2016 (based on the DMO's financing remit for 2015-16).

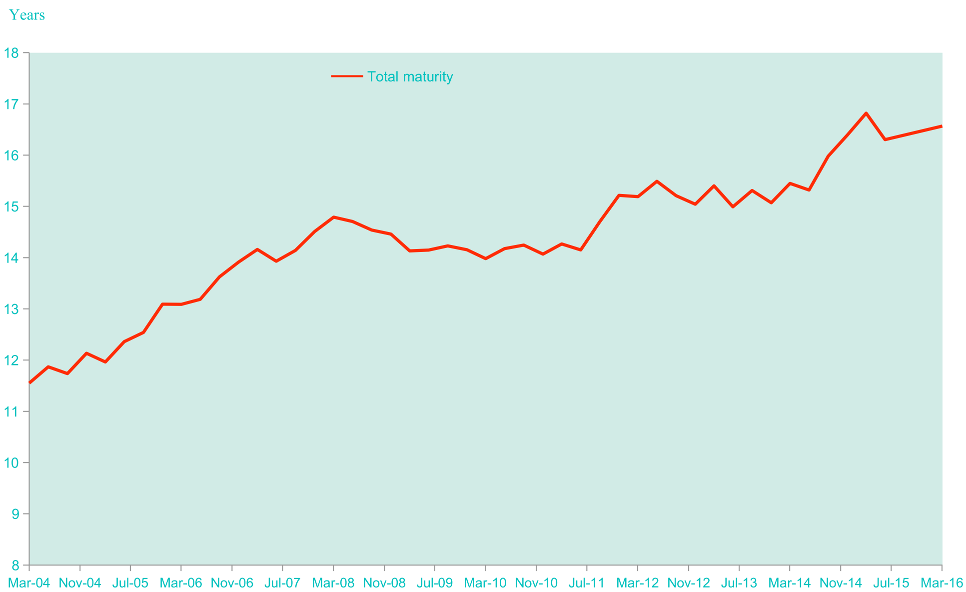
Chart C1
Nominal and market values of the gilt portfolio (projected to end-March 2016)



Source: DMO

Chart C2 shows the maturity of the gilt portfolio at end-March each year since 2004 and projected to end-March 2016 (on the basis of the DMO's 2015-16 financing remit); on this basis, average maturity is expected to remain at similar levels, falling from 16.82 to 16.57 years at end-March 2016.

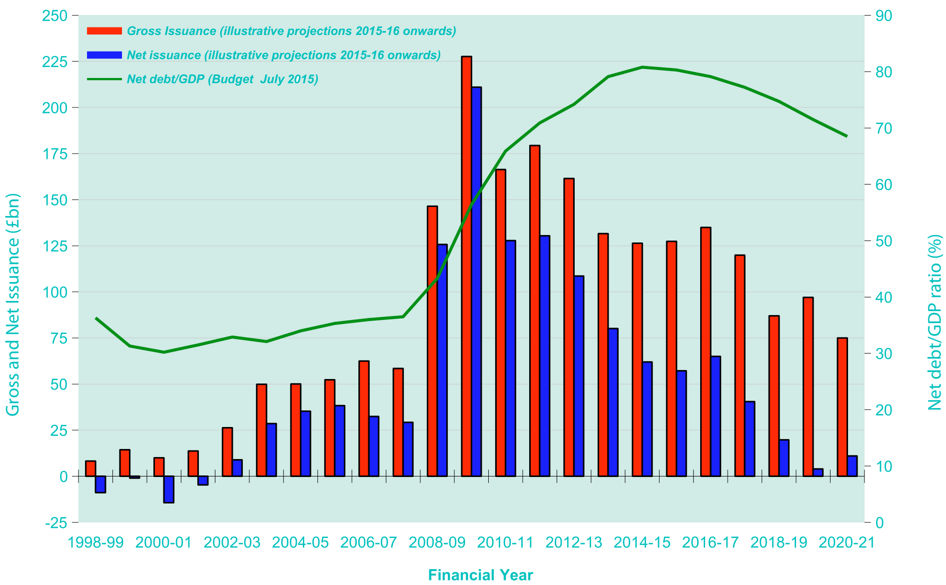
Chart C2
Maturity of the gilt portfolio (projected to end-March 2016)



Source: DMO

Chart C3 shows past and projected gross and net gilt issuance levels (and net debt/ GDP ratio) as published at the Budget on 8 July 2015.

Chart C3
Gross and net issuance history and projections



Source: DMO/OBR

b) Breakdown of the gilt portfolio by type and maturity

Table C2 and Chart C4 below show the evolution of the gilt portfolio by type and maturity since March 1999. They show a steadily rising proportion of long conventional gilts (from 15% to 29% of the portfolio at the peak in March 2009), although it has fallen back a little since then, reflecting the subsequent very large absolute increase in short conventional issuance. The proportion of medium conventional gilts fell to a low of 12% in March 2015, due to reduced issuance in the sector and because of the effect of shorter-dated medium gilts rolling down into the short sector.

The proportion accounted for by index-linked gilts also rose significantly (from 21% to a peak of 30% at end-March 2008), although this too has fallen back since then in the wake of record high gilt sales requirements that necessitated significant absolute increases in conventional gilt sales.

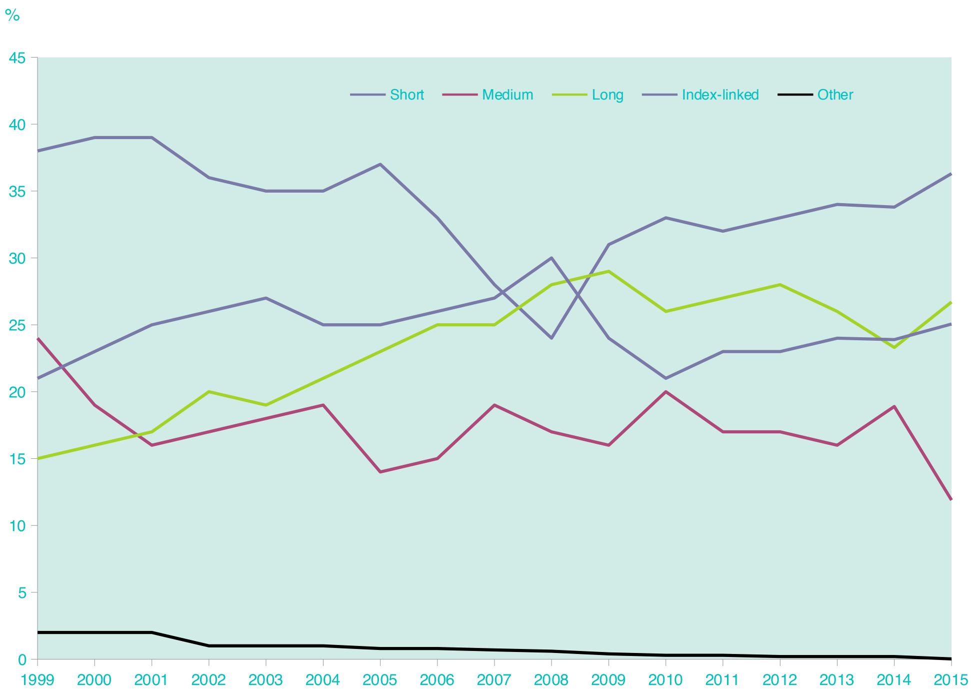
Table C2
Portfolio composition
1999-2015

%	Short	Medium	Long	Index-linked	Other*
1999	38	24	15	21	2
2000	39	19	16	23	2
2001	39	16	17	25	2
2002	36	17	20	26	1
2003	35	18	19	27	1
2004	35	19	21	25	1
2005	37	14	23	25	0.8
2006	33	15	25	26	0.8
2007	28	19	25	27	0.7
2008	24	17	28	30	0.6
2009	31	16	29	24	0.4
2010	33	20	26	21	0.3
2011	32	17	27	23	0.3
2012	33	17	28	23	0.2
2013	34	16	26	24	0.2
2014	34	19	23	24	0.2
2015	36	12	27	25	0.0

Data as at end-March. Figures may not sum due to rounding.
*Includes undated and floating rate gilts to 2001; undated gilts only thereafter.

Source: DMO

Chart C4
Gilt portfolio –
proportional breakdown
by maturity and type



Source: DMO

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