



United Kingdom  
Debt Management  
Office

# **Official Operations in the Gilt Market**

## **An Operational Notice**

5 January 2021

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# Official Operations in the Gilt Market

## An Operational Notice

This Notice sets out the objectives and procedures for the United Kingdom Debt Management Office's (DMO) operations in the gilt market, acting as the government's debt manager. It replaces all previous notices, the most recent of which was published on 6 April 2020, and comes into effect from 5 January 2021.

This Notice sets out the normal market operations which the DMO undertakes in the gilt market. In exceptional circumstances, the DMO may on occasion undertake other operations at its discretion. The DMO may also announce variations in these arrangements, or new forms of market operation, either by special announcement or by means of a supplement or revision to this Operational Notice.

In relation to any market operation, the DMO reserves the right (but is not obliged) to amend, without prior notice, the operational requirements and procedures set out in this Operational Notice, including without limitation by the extension of deadlines and the specified methods of communication, to such extent as the DMO, in its sole opinion and determination, considers necessary. The DMO shall not be obliged to publish details of any such amendments.

The DMO's cash management operations are outlined separately in the Operational Notice "Exchequer cash management in the United Kingdom".

This Notice should be read in conjunction with the most recent versions of the "Information Memorandum on the Issue, Stripping and Reconstitution of British Government Stock", the "GEMM Guidebook – A guide to the roles of the DMO and Primary Dealers (GEMMs) in the UK government bond market" and the DMO's "Privacy Notice". Each of these publications is available on the DMO website at: [www.dmo.gov.uk](http://www.dmo.gov.uk).

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# 1. Framework for Gilt Operations

1. The framework for gilt operations is set out in the Report of the Debt Management Review produced jointly by HM Treasury and the Bank of England in July 1995.<sup>1</sup> Since the transition in debt management responsibilities from the Bank to the DMO effective from 1 April 1998, this framework has since applied to the DMO's operations. A full description of all the DMO's responsibilities, objectives and lines of accountability is also set out in its Framework Document, first published in March 1998, and most recently revised in April 2005<sup>2</sup>.

2. The objective of debt management, as stated in the 2020-21 Debt Management Report (DMR)<sup>3</sup>, 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".

3. Annually, the government publishes a DMR, including a debt management remit for the DMO, setting out advance details of the annual issuance programme. This includes a planned scale and maturity structure for the issuance of conventional gilts for the year and an indication of the likely scale of the issuance of index-linked gilts. Within that published framework, the government aims each year to sell sufficient gilts, Treasury bills and NS&I products to finance the Central Government Net Cash Requirement (excluding Northern Rock (Asset Management), Bradford and Bingley and Network Rail) (CGNCR ex NRAM, B&B and NR) (plus maturing debt and any net change in financing for the foreign exchange reserves).

4. This Notice describes the arrangements for the primary and secondary market operations which the DMO undertakes in implementing the debt management remit, including conventional and index-linked auctions, syndicated offerings, tenders, sales to and from official portfolios and other market operations. In all sections, references to Gilt-edged Market Makers (GEMMs) should be read as applying to those GEMMs recognised by the DMO as specialists in that particular sector of the wholesale and/or retail market – conventional gilts, index-linked gilts or both. Firms recognised by the DMO as GEMMs agree to meet a number of obligations on a continuous basis. GEMMs are also entitled to certain privileges in the market.<sup>4</sup> All market participants must abide by their regulatory obligations at all times. Any timings mentioned refer to London time (GMT/BST as relevant).

5. Throughout this Notice, in respect of index-linked gilts, all references to clean prices relate to real clean prices for three-month lag and 'uplifted' clean prices for eight-month lag index-linked gilts respectively.

6. Any changes to the arrangements described below will be published through updates to the relevant sections of this Notice.

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<sup>1</sup> <https://www.dmo.gov.uk/media/2083/report95.pdf>

<sup>2</sup> <https://www.dmo.gov.uk/media/14536/fwork040405.pdf>

<sup>3</sup> <https://www.dmo.gov.uk/media/16337/dmr2021.pdf>

<sup>4</sup> For further details regarding the obligations and privileges refer to the GEMM Guidebook – "A guide to the roles of the DMO and Primary Dealers (GEMMs) in the UK government bond market".

## 2. The Primary Market

### 2.1 Policy and the Financing Remit

7. Since 1998, auctions have constituted the primary means of issuance for the government. However, the DMO may issue gilts via other means (e.g. a syndicated offering or gilt tender).

8. As noted earlier, the DMO remit is published in the DMR on an annual basis. An indicative annual calendar of gilt auctions is also published as part of the DMO's remit announcement.

9. The DMO's remit is set by HM Treasury ministers following consultation with the DMO, GEMMs, investors and other market participants. GEMMs and other market investors are invited to send a representative to annual meetings, chaired by the responsible minister, in order to state their recommendations on the content of the forthcoming year's remit, the perceived needs and demands of the market and any other topical issues.

10. The financing remit for each financial year will indicate the target amounts of cash to be raised in conventional gilts and index-linked gilts, and within conventional gilts the amounts to be raised in each maturity band,<sup>5</sup> as well as the planned split by method of issue.

11. The issuance programme may be varied during the year in the light of any substantial changes to any criteria specified in the relevant annual remit. In practice, variations are most likely to occur in step with regular quarterly issuance announcements or at the time of revisions or updates to the public finance forecasts. Any revisions to the issuance programme will be announced by the DMO.

12. Announcements regarding the revision of public finance forecasts may result in the re-scheduling of previously announced gilt operations, given the market sensitivity of these events.

### 2.2 Prior Notice of Gilt Auctions

13. The DMO hosts quarterly consultation meetings with representatives of GEMMs and end-investors. These meetings are normally held towards the middle of March, May, August and November, and are intended to inform the DMO of the market's perspectives on issuance choices of individual gilts in forthcoming quarters (April-June, July-September, October-December and January-March), within the constraints of the published remit. Summary minutes of these meetings are published on the DMO's wire services and web pages as soon as practicable the following day.

14. Typically on a quarterly basis, the DMO will announce its plans for auctions to be held over the following one to four months, usually at 7:30am on the last business days of March, May, August and November. These announcements will normally indicate the identity of the individual existing gilt(s) or, if relevant, the launch of any new one(s), although coupons on new gilts are generally fixed closer to the auction date itself.

15. At 3:30pm on the same business day in the week preceding a scheduled auction (or such other time as the DMO considers reasonably practicable in light of the prevailing circumstances), the DMO will publish the final terms and conditions of that auction, including the

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<sup>5</sup> The DMO defines maturity bands as follows: shorts 1-7 years to maturity, mediums 7-15 years, and longs 15+ years.

nominal amount of the gilt on offer, confirmation of ISIN and SEDOL codes, and, where the gilt being issued is a new bond, the coupon. Further issues of already existing gilts will generally be fungible with the parent issue from the settlement date of the relevant auction.

## 2.3 Auction Mechanics

16. With the exception of small retail bids from members of the DMO's Approved Group scheme (see below), all bids at gilt auctions must be submitted by, or through, a GEMM(s), via the Bloomberg Auction System (BAS), or, in emergency circumstances only, by another method specified by the DMO. All other investors wishing to participate in the auction process must submit their bid to a GEMM(s) of their choosing, which is, in turn, obliged to submit that bid to the DMO, via BAS, without charge or discount. Any dealer(s) facilitating client orders in or around gilt auctions should also heed the core principles and statements of good practice of the FICC Markets Standards Board (FMSB) regarding reference price transactions<sup>6</sup> and auction participation<sup>7</sup>.

17. Prior to each auction, the DMO will email each GEMM detailing its individual reporting requirements. All GEMMs are required to submit details of auction day trading in the relevant gilt(s), with all counterparty types, by email on the appropriate forms. Reports must be received by the DMO by 9:00am<sup>8</sup> on the morning after the relevant auction.

18. Bids may be submitted at any time from the opening of the published bidding window up until the published deadline, after which no further bids can be accepted. Enabled GEMM dealers may (provided they are acting in accordance with good market practice and with all applicable laws and regulations) submit, cancel and/or amend as many bids as they wish before the deadline through BAS.

19. Unless otherwise notified, each competitive bid, from a GEMM or a client bidder, must be for one amount and at one clean price, expressed as a multiple of 0.001 of £1, for at least £1 million nominal and round multiples thereof.

20. GEMMs bidding on behalf of clients, or any other non-GEMM dealer(s) in their firm, must enter the appropriate client code in the relevant field on their bid input screen. Client codes are allocated and maintained by the DMO, and any client institution intending to participate in the auction should apply directly to the DMO for allocation of a code. Applications may be made by email, Bloomberg message or headed letter. Such codes are unique, and will be retained for use in future auctions. However, the assignation of such code should not be taken as confirmation that the DMO has verified the legitimacy of (or carried out any other due diligence on) such client institution nor that a direct relationship currently exists, or will exist, between DMO and such client institution: it is the sole responsibility of the GEMM bidding on behalf of a client to conduct appropriate due diligence checks on the client and to be responsible for the legal and regulatory compliance of each transaction entered into with its client. GEMM dealers or salespeople should not apply to the DMO for such codes on behalf of a client, save in exceptional circumstances, but the client is expected to reveal its code when submitting a bid to a GEMM. New applications for codes should be made to the DMO by the close of business on the evening before any auction, otherwise GEMMs will be expected to submit bids from non-registered clients under the code 'NEW' or under their own account, which may or may not, at the DMO's discretion, affect the GEMM's own account allowance. In either case, GEMMs should contact the DMO immediately to identify the new bidder and its bids.

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<sup>6</sup> Available here:

[https://fmsb.com/wp-content/uploads/2017/05/2016-001-FMSB-Std\\_ReferencePriceTransactions\\_FIMarkets\\_Final-Updated.pdf](https://fmsb.com/wp-content/uploads/2017/05/2016-001-FMSB-Std_ReferencePriceTransactions_FIMarkets_Final-Updated.pdf)

<sup>7</sup> <https://fmsb.com/wp-content/uploads/2020/07/statement-of-good-practice-for-participation-in-sovereign-and-supranational-auctions-in-fixed-income-markets.pdf>

<sup>8</sup> All times mentioned herein refer to London time (GMT or BST) unless otherwise specified.



21. Client institutions that are part of the same parent organisation as a GEMM (e.g. a bank's Treasury operation) may also apply for the assignment of a client code, but in such cases the DMO will seek additional assurances around the independence and segregation of the two entities.

22. The BAS platform has functionality that allows GEMMs the ability to manage segregation of own account bids from client bids or other bid sets, through the creation of separate bidder groups, at their own discretion. It is the responsibility of each GEMM to manage and mitigate any conflicts of interest (real or perceived) with their clients.

23. GEMMs are offered a non-competitive allowance at each conventional or index-linked auction. The DMO sets aside a total of 15% of the nominal amount on offer for this purpose. In conventional gilt auctions, the 15% allowance is divided equally amongst wholesale GEMMs, while in index-linked auctions individual firms' allowances, within the 15% aggregate total, are determined by reference to that firm's successful competitive bidding results in the three previous index-linked auctions. In calculating individual allowances, the DMO makes no adjustment for the price, risk or duration weighting of the different gilts. Allowances are calculated to the nearest £100,000 nominal. Note that non-competitive allowances are not automatic – GEMMs must request an allocation each time, in one single non-competitive bid, for a size that is a multiple of £100,000, up to the stated maximum. Non-competitive bids are filled at the average accepted price in conventional gilt auctions, and at the strike price in index-linked auctions.

24. If the Prospectus identifies that applications for stock may be made by members of the Approved Group, applicants, which are members of the DMO's Approved Group of Investors,<sup>9</sup> may bid non-competitively by delivering a completed application form to the DMO by either of the following means: (a) to arrive at the Registrar<sup>10</sup> not later than 30 minutes before the published deadline on the day of the auction; or (b) to be lodged at the DMO's office at Eastcheap Court not later than 30 minutes before the published deadline on the day of the auction. Approved Group bidders can make a non-competitive bid for up to £500,000 nominal in both conventional and index-linked gilt auctions, subject to a minimum application of £1,000 nominal and a limit of one bid per applicant, in £1,000 multiples.

25. Further details on all aspects of BAS can be found in the user guide "Bloomberg Auction System – User guide for gilt primary market operations conducted by the UK Debt Management Office", issued to all GEMMs.

26. In the case of one or more GEMMs, or the DMO itself, being unable to access BAS, the DMO may, at its discretion, permit the submission of bids by GEMMs through alternative means such as email or by direct telephone line. In these exceptional circumstances, GEMMs are likely to be limited in the maximum number of bids that they may submit in the final 10 minutes of bidding. GEMM dealers should inform the DMO dealing desk immediately upon becoming aware that they are not able to access BAS. GEMMs must be aware that the DMO's input of bids into BAS on their behalf will be on a 'reasonable endeavours' basis, and that no bids may be accepted, cancelled or amended after the specified auction deadline; except that the DMO may, in its absolute discretion, accept bids from, or input, amend or cancel bids on behalf of, the affected GEMM after the auction deadline in the event that it has received all necessary information relating to the bid from the affected GEMM prior to the auction deadline. In the event that the DMO itself is unable to access BAS, or there is a widespread market failure, the DMO may announce that all bids should be submitted by email, direct telephone line or alternative

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<sup>9</sup> Members of the Approved Group of Investors, who have been accepted at the DMO's discretion, can purchase gilts directly from the DMO. Approved Group membership application forms can be obtained from the Computershare website [www.computershare.com](http://www.computershare.com).

<sup>10</sup> HM Treasury's designated gilt Registrar, currently Computershare Investor Services plc, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, tel no. 0370 702 0003, website [www.computershare.com](http://www.computershare.com).



arrangements instead of BAS, along with any other emergency measures (e.g. limits on bid numbers). In such circumstances, the publication of auction results is likely to take longer than normal. Alternatively, the DMO may announce a postponement of the auction until later the same day, or on some future date. In no event shall the DMO be liable for any loss suffered by any party as a result of a delay, failure or any other issue arising in connection with BAS or any other electronic trading platform or communications system.

27. After the designated bidding deadline has passed, the DMO will download the complete bid set from BAS into its own allocation systems, which will then calculate the result and individual GEMM allocations. As part of this process, the bid set and results are checked by the DMO prior to release and the DMO checks whether GEMMs and clients have adhered to the maximum allocation guidelines set down by the DMO (see below). The bidding information will be treated as confidential by the DMO to the fullest extent permitted by law.

28. In processing auction results and allocations, the DMO may, at its own discretion, decline to allot some or all of the gilt for which an individual institution has bid. This may occur, for example, if the DMO judges there is a risk of post-auction market distortion. In conventional auctions, the maximum permitted allocation for any single bidding institution is currently set at 25% of the nominal amount on offer, and in index-linked auctions the figure is 40%. In the case of GEMMs, the DMO will take account of any formally notified net short position already accumulated in the gilt, which will raise their potential maximum allowance proportionally. GEMMs are expected to have appropriate controls around this formal notification. Note that the term 'GEMM' in this case applies to the group as a whole, with the exception of any segregated entities previously given client codes by the DMO. Should there be a need to scale back any allocations, the DMO will discard the lowest competitive bid(s) first, up to the relevant cut-off point. Non-competitive bids and bids on behalf of unrelated clients will be unaffected by this measure. The maximum allocation limits for client bidders are set at the same levels and excess bids would be scaled back by the same method (i.e. lowest priced successful bids first) and, if necessary, on a pro-rata basis per GEMM, where multiple bids are at the same price. The DMO also retains the right to refuse or amend bids in the case of any other error or irregularity in the bidding process, and any bid is not deemed to be accepted unless and until the auction results are published.

29. Allocations at the lowest accepted price are scaled pro rata, rounded down to the nearest 0.0001%, and all such allocations are in multiples of £1,000 nominal of gilts. Any small rounding residual amount is retained by the DMO on its own portfolio.

30. The auction result will be released on the DMO's wire services pages and in a press notice as soon as reasonably practicable once all the necessary calculations, allocations and checks have been performed internally by the DMO. Immediately prior to release, the DMO's dealers will inform Inter-Dealer Brokers (IDBs) that results are ready for publication and request that they turn all current live prices on their screens 'subject to confirmation'. This is standard practice, and no indication of the outcome of the auction is given to IDBs. The public announcement of the auction results will contain sufficient information for GEMMs to be able to calculate their firm's own individual successful allocations, however DMO dealers will also subsequently confirm firms' individual allocations electronically via the BAS platform, which will usually be a few minutes after the general public results announcement and not beforehand.

31. Gilt auctions will normally settle on the following business day, in accordance with the T+1 convention in the gilt market. For auction settlement purposes, accrued interest is rounded to the nearest 12th decimal place per £100 nominal.

32. All successful GEMM bidders are expected to match the DMO's settlement instructions in Euroclear UK & Ireland's CREST system, and to meet their individual commitments on the day and in good time.

33. The procedures described above apply to all conventional and index-linked gilt auctions conducted by the DMO. The following paragraphs identify areas where procedures and regulations may differ from one type of operation to another. Each GEMM purchasing gilts from the DMO through any of these processes (including where a GEMM has bid on behalf of a client) shall be deemed to be acting as principal, and shall be responsible for ensuring compliance with all legal and regulatory restrictions and obligations applicable to it in all relevant jurisdictions in relation to its purchase and any onward sale or transfer by it of such gilts. No action has been taken or will be taken in any jurisdiction by or on behalf of Her Majesty's Treasury that would permit a public offering of any gilt, or possession or distribution of any offering or publicity material relating to any gilt, in any country or jurisdiction where action for that purpose is required.

## **2.4 Conventional Gilt Auctions**

34. Conventional gilt auctions are generally held on a bid or multiple price basis (i.e. successful bidders pay the price that they bid), with non-competitive bids allocated at the weighted average accepted price.

35. Direct bidding is open to all primary dealers, wholesale or retail, recognised as GEMMs in conventional gilts, and permissioned as such in BAS.

36. The published results of a conventional gilt auction will include: details of the highest, average and lowest accepted prices (with the pro rata scaling rate at the lowest accepted price); the gross redemption yields equivalent to these prices; the total nominal value of accepted non-competitive bids (split between GEMMs and non-GEMMs); the total value of all bids received, including those rejected in whole or in part on account of price; and the ratio of this total to the amount on offer (the 'cover').

## **2.5 Index-linked Gilt Auctions**

37. Index-linked gilt auctions are generally held on a single or uniform price basis (i.e. all successful bidders pay the lowest accepted price), with non-competitive bids also allocated at this lowest accepted ('strike') price.

38. Direct bidding is open to those primary dealers, wholesale or retail, recognised as index-linked GEMMs, and permissioned as such in BAS.

39. The published results of an index-linked gilt auction will include: details of the strike price (with the pro rata scaling rate at this lowest accepted price); the real yield equivalent to that price; the total nominal value of accepted non-competitive bids (split between GEMMs and non-GEMMs); the total value of all bids received, including those rejected in whole or in part on account of price; and the ratio of this total to the amount on offer (the 'cover').

## **2.6 Post Auction Option Facility (PAOF)**

40. Since 1 June 2009, all UK gilt auctions – conventional and index-linked – have included an additional Post Auction Option Facility (PAOF), whereby all successful bidders are offered the right, exercisable during a take-up window after the auction, to purchase up to an additional percentage (25% from 7 April 2020) of the gilt each bidder was allotted at the relevant auction,

at the published average accepted price in multiple price format auctions, or at the published strike price in auctions of uniform price format.

41. Following each auction, the DMO calculates each GEMM's option entitlement, based on its total successful bids – including non-competitive, own account and/or those on behalf of clients.

42. The DMO will publish opening and closing times for the option take-up window as part of the auction documentation relating to the gilt being issued prior to such relevant gilt auction and GEMMs have until the designated cut-off time to inform the DMO electronically via BAS whether they wish to take-up some or all of their entitlement. Dealers may cancel or amend these 'bids' as they wish, and only those 'live' at the cut-off time shall be counted. Notwithstanding the foregoing, the DMO may, in its absolute discretion, (a) require or permit GEMMs (or IL GEMMs) to exercise their options by telephone or other means, and (b) by notice to all GEMMs, change or extend the time window for the exercise of such option in the event that BAS is not available at the relevant time for the exercise of such options or some other valid reason. The DMO shall notify all GEMMs (or IL GEMMs) of any such change as soon as practicable.

43. GEMMs are under an obligation to pass on the right to the option to any client bidder(s) that submitted successful bids in the auction through their firm, and, as a result, dealers should factor client take-ups into the single amount of options that they apply for during the take-up window. However, in the event that a client does not wish to take up its allowance, the GEMM may opt to take up that allowance for its own account.

44. After the designated take-up deadline has passed, the DMO calculates the total take-up of the option facility across all GEMMs, and publishes this total as soon as practicable, on its wire services pages and website. This announcement will also contain the revised total nominal amount in issue of the relevant gilt.

45. The DMO only creates an additional amount of the gilt equal to the nominal amount of options taken up.

46. Settlement will normally take place on the following day, in line with the T+1 convention in gilts. GEMMs taking up option entitlements should book a single purchase trade as a normal secondary market transaction with the DMO, at the option strike price and separate from any instructions relating to the auction, and, where relevant, sales ticket(s) to clients who have exercised their options to purchase stock, at the same price.

47. The PAOF will not be offered in the event that the auction itself is uncovered (see below), and the DMO also reserves the right not to offer the PAOF in other circumstances at the DMO's discretion, although it would consider this only in limited circumstances, and make appropriate announcements as soon as practicable.

## **2.7 Uncovered Auctions**

48. The DMO reserves the right not to allot all or any of the gilts on offer at a conventional or index-linked auction, although it would consider this only in limited circumstances, for example if it judges bids to be at an unacceptably deep discount to the prevailing market level. In other circumstances, an auction may still not be 100% covered, even if all bids submitted are accepted.

49. Where a regular conventional or index-linked auction is not fully allocated, for any reason, it is likely that the unallocated gilts will still be created from the National Loans Fund, although the DMO does have the option to cancel the residual amount immediately. The

unallocated balance will then be held by the DMO in an official portfolio for a certain period of time. The DMO may thereafter offer the balance for re-sale at a time of its choosing, but no sooner than three business days after the original auction. These arrangements will be detailed in a screen announcement to be published as soon as practicable after the results of the auction. Depending upon the amount of gilts involved, the re-sale of the unallocated balance may be via a second auction, a tender or direct sale (see below).

## **2.8 Switch and Reverse Auctions**

50. The DMO may, at its discretion, use other forms of auction. Plans to use these and the details of how such auctions would operate are likely to be set out in or in conjunction with the annual issuance plan, any update or other notice. Other forms of auction used previously have included switch auctions and reverse auctions.

51. Switch auctions are designed to allow the exchange of one gilt for another. This process involves the cancellation of the relevant amount of the source gilt and the creation of an extra corresponding amount of the destination gilt. Switch auctions may be employed for various purposes – for example, to maintain a supply of current benchmark gilts in a low financing environment.

52. A reverse auction is designed to allow the DMO to buy-in rather than sell gilts. Under this operation the DMO will make an offer to buy back pre-announced amounts of one or more gilts which are then subsequently cancelled. This type of operation has also been used, for example, at times of low financing requirements.

## **2.9 Gilt Tenders**

53. The conventional and index-linked gilt auction programme in any year may be supplemented between auctions by official sales of gilts by the DMO via gilt tenders. Gilt tenders will typically, but not necessarily, be for existing gilts and for a lower size (in cash terms) than conventional and index-linked gilt auctions of equivalent maturity. The DMO's annual remit and/or calendar announcements may specify any plans for sales by gilt tender, and may also set out any rules concerning notice periods, amounts and/or maturities of such operations.

54. Views on gilt tenders (including views on preferred timing and/or choice of gilt) may be sought by the DMO via the quarterly consultation process or at other times during the year. Advance notice will be given of the specific details of the gilt tenders via an announcement(s) that will detail: the identity of the gilt(s) involved; the intended size of the operation; any applicable limitations on participation (e.g. minimum acceptable prices, number of bids permissible, and allocation limits); and other operational matters. Tenders of index-linked gilts will normally be held on a single price basis, and those of conventional gilts may be either single price or multiple price format, with bids at the strike/clearing price subject to the usual pro rata scaling. The DMO will also specify if any non-competitive or post auction option facilities will be made available in respect of individual gilt tenders.

55. GEMMs will be invited to submit bids via BAS, either for their own account or on behalf of clients, in the usual denominations, within the timetable outlined in the screen announcement. Results of the operation, including new amounts outstanding, will be published as soon as possible, with settlement and, where appropriate, creation of the relevant gilt(s) normally taking place on the following business day. The DMO expects all counterparties to be able to honour their commitments on that day.

56. The DMO may also use the gilt tender process described here (or a reverse version) for other purposes, such as the sale of an unallocated portion of gilts following an uncovered

auction, or for the acquisition or disposal of gilts on behalf of other government funds, under the management of the Commissioners for the Reduction of the National Debt (CRND) or other entities. These may be sales or purchases.

## 2.10 Syndications

57. Although auctions constitute the primary means of gilt issuance, the annual debt management remit may include provision for syndicated issues of debt, including the target maturity bands or sector(s) of the market, planned size and number of operations in such a programme.

58. The DMO will give prior notice of its intentions regarding syndicated offerings to allow the market to be suitably prepared.

59. Market feedback on syndication candidate bonds will be sought at quarterly consultation meetings with GEMMs and investors, and bilaterally on an on-going basis. Generally, around two weeks in advance of an intended syndication, the DMO will announce further details relating to the operation on its wire services pages and on the DMO's website.

60. The DMO will generally appoint, from a panel comprised exclusively of wholesale GEMMs, a group of lead managers to lead each individual transaction. All other wholesale GEMMs will be invited to participate as co-lead managers. The DMO would not normally expect to appoint any non-GEMM institution to any role in the management group. Equally, newly-appointed GEMMs and/or retail GEMMs will not normally be eligible to participate in such a group, but may be invited at the DMO's discretion, for example, in cases where specific investors are targeted or the firm has a recognised expertise in a certain area.

61. In allocating lead management and other roles in syndicated issues under such a programme, the DMO will offer all relevant GEMMs the opportunity to present their advice and credentials on a fair and equal basis. Selection for the roles over time will take into account the importance of promoting effective delivery of the overall issuance programme. Factors such as: active participation in the gilt and Treasury bill primary markets (including regular bidding participation in auctions) and activities as a DMO cash management counterparty, as well as market share and liquidity provision in the secondary market: expertise in the relevant market sector, timely provision of good quality market intelligence, and responses to DMO requests for feedback and consultation exercises will be taken into account in the final selection decision, which shall be merit-based, although no specific targets, selection criteria or league tables will be published. The DMO will operate the selection process within a general design that, where possible, allows for most wholesale GEMMs to have the opportunity to act as a lead manager in a syndicate during the life of the programme, subject to performance. Lead managers are likely to be formally appointed and announced to the market around a week in advance of the intended issue date. Individual roles within the lead management group may be assigned nearer to the time of sale.

62. The DMO will endeavour, via screen and web announcements, press notices and/or communications from lead managers, to keep all market participants informed of developments in the syndication process at all key stages of the operation.

63. All GEMM participants in a syndicated offering – lead managers and co-lead managers – are expected to operate with propriety at all stages, including the protection of any deal-sensitive information which a syndicate desk or other privileged personnel may possess. Management and compliance departments at GEMMs have a duty to ensure that appropriate compliance and 'Chinese wall' procedures are in place. The DMO reserves the right to request related trading and turnover data from any involved parties for analytical purposes, but



responsibility for compliance monitoring of a GEMM's activity remains with the firm itself and its regulator.

64. A high-level summary of the DMO's current investor allocation guidance for GEMMs can be found at Annex B.

## **2.11 Conversion Offers**

65. The DMO's annual financing remit may make provision for conversion offer(s), for example with the aim of building up the size of a new gilt benchmark and/or retiring an old, 'off-the-run' one. Details of how conversion offer(s) would operate are likely to be set out in, or in conjunction with, the annual plan or its updates.

66. In determining which gilts might be candidates for conversion, the DMO is unlikely to consider any conventional gilt that is, or has a reasonable likelihood of becoming, cheapest-to-deliver into any active<sup>11</sup> gilt futures contract. The DMO will not normally schedule offers so that fixed conversion terms on any two offers run concurrently. Moreover, a conversion offer will not normally be scheduled to coincide with a gilt auction in the same maturity area.

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<sup>11</sup> 'Active' means a contract that already has outstanding open interest.

## 3. The Secondary Market

### 3.1 Market Making

67. GEMMs are expected to make effective two-way prices on demand to any of their clients in all gilts in which they have been recognised as a GEMM. There is no requirement that a GEMM should be obliged to make a price to any other GEMM, to an IDB or to an Agency Broker, although the GEMMs may choose to do so.

68. The DMO regards “effective two-way prices” as a bid and offer made in regular market size with a reasonable spread between the two. ‘Reasonable’ is not strictly defined here in terms of pence or basis points, as the DMO recognises that bid-offer spreads may change in the short or long term, according to prevailing conditions. In the event of any substantiated comment from a market investor, the DMO would consider these factors in determining whether a GEMM was not fulfilling this key obligation. Similarly, any client requesting a price in exceptional size (large or small) might expect the price quoted to be adjusted accordingly, to take account of the disproportionate risks or settlement costs involved. If a client requests a non-standard settlement date, the price(s) may also be adjusted accordingly.

69. GEMMs are expected to stand ready to make prices at all times between the hours of 8:00am and 5:00pm (London time) on London business days. On certain occasions (e.g. Christmas Eve and New Year’s Eve) the trading day may be shortened, depending on the opening hours of the relevant Exchanges. The DMO deems it reasonable for market-making obligations to be suspended temporarily (for one or two minutes) over the release of key economic news or data.

### 3.2 Inter-Dealer Brokers (IDBs)

70. There are firms or platforms that operate as inter-dealer brokers in the gilt market, whose counterparty list is, by their own volition, limited to the GEMM community only. For reporting purposes, these are treated as IDBs by the DMO. These firms, unless otherwise agreed by the DMO in its sole discretion, are registered as, and operate as, Multilateral or Organised Trading Facilities (MTFs/OTFs) under the rules and auspices of a UK regulator and/or any relevant local equivalent(s) in other jurisdictions, as determined by the DMO in its sole discretion. GEMMs have no obligation to quote prices to such firms, although they may choose to do so. The DMO does have some direct interaction with such firms as set out below.

71. Upon application from an IDB, the DMO may choose to ‘acknowledge’ them and list them on its website. For the DMO to acknowledge such an applicant, the firm must demonstrate its ability to deliver suitable services and a long-term commitment to the gilt market. The DMO, however, has no role in the compliance monitoring of the activities of any IDB in the gilt market – these remain the responsibility of the firm itself and its regulator.

72. Immediately prior to market-sensitive announcements by the DMO, the DMO’s dealers will inform IDBs that they are ready for publication and request that they turn all current live prices on their screens ‘subject to confirmation’. This is standard practice, and no indication of the content of the release is given to IDBs.

### 3.3 Intermediary Agencies

73. There may be other firms or platforms that operate as intermediary brokers, MTFs, OTFs or Systematic Internalisers in the gilt market, but whose counterparty list is wider than just the



GEMM community. For reporting purposes, these are treated as Agency Brokers (or Broker Dealers) by the DMO. These firms may have a wider client base that consists of banks who are active 'traders' in government bonds, corporate bonds or derivatives, or they may broke directly between traders and end-investors. In all cases, GEMMs have no obligation to quote prices to such firms, although they may choose to do so. The DMO has no direct interaction with such firms.

### 3.4 Strips, Stripping and Reconstitution<sup>12</sup>

74. Between 1997 and 2008, all new conventional gilts were issued with coupon and maturity dates in one of two series – 7 June and 7 December, or 7 March and 7 September – in order to facilitate the 'stripping' of different gilts into fungible coupon payments due on a designated date. Principal strips (i.e. the final par redemption payments) are not fungible, even with coupon strips maturing on the same day, but may still be traded as separate securities. Since October 2009, the DMO has introduced further series of coupon and maturity dates for new conventional gilts, but has no current plans to make gilts of these series strippable. However, should it decide to do so, it would make an appropriate announcement at the time.

75. The DMO maintains a list, available on its website, of all those gilts that have been declared eligible for stripping, and the amounts currently held in stripped format, which is updated on a weekly basis. A newly-launched gilt is unlikely to be declared 'strippable' until a sufficient amount of the gilt has been issued, in order to maintain liquidity in both the stripped and unstripped formats – in recent times this has been interpreted as a minimum of £5 billion nominal in issue.

76. Under current gilt market convention, prices in strips (coupons and principals) are quoted in terms of their yield, usually to three decimal places, calculated on an actual/actual basis, with any subsequent cash dealing prices rounded to the nearest penny. The minimum denomination for trading in strips is one penny, and the minimum amount of the source gilt that may be stripped or reconstituted is £10,000 nominal (except for cases where the source gilt is still within its first coupon period (short or long) where the minimum amount is £1 million, for technical reasons<sup>13</sup>).

77. GEMMs wishing to participate in the strips market are invited to become a Strips Market Participant, which indicates that the specific GEMM is prepared to offer a service in strips to clients. A list of Strips Market Participants is maintained on the DMO website<sup>14</sup>.

78. GEMMs, as well as the DMO and the Bank of England, are the only institutions permitted to strip and reconstitute gilts. Strips may only be held or transferred within CREST.

79. Further details on aspects of the strips market can be found in the most recent edition of the DMO's Information Memorandum entitled "Issue, Stripping and Reconstitution of British Government Stock", which is also available on the DMO website<sup>15</sup>.

## 4. Other Official Operations

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<sup>12</sup> A reference to strips or a strip is a reference to Separate Trading of Registered Interest and Principal Securities (STRIPS).

<sup>13</sup> This is to allow individual strips to be tradeable in multiples of £0.01 nominal.

<sup>14</sup> <https://www.dmo.gov.uk/responsibilities/gilt-market/market-participants/>

<sup>15</sup> <https://www.dmo.gov.uk/media/17188/infmemadd301220.pdf>

80. The DMO may undertake other official operations in the secondary market. These may include for example:

- transacting in near maturity gilts;
- transacting in gilts to offset positions accumulated as a result of its dealings for the retail Gilt Purchase and Sale Service;
- purchases and sales of gilts for other official portfolios; and
- creating gilts for repo purposes.

#### **4.1 Dealing in Near Maturity Gilts**

81. For cash management reasons, the DMO may bid a price of its own choosing for any conventional gilt, including any strip, that has less than twelve months remaining before its maturity, or for any index-linked gilt where the reference RPIs for the final redemption payment are known. As these are essentially money market instruments by this stage, any price bid will be set by reference to the DMO's cash management operations at the time. Since August 2003, the DMO, with the consent of the Gilt-edged Market Makers' Association (GEMMA), has been able to transact with IDBs as well as GEMMs, when trading in near maturity gilts only, where both parties have signed the relevant documentation.

#### **4.2 Gilt Purchase and Sale Service**

82. Since December 2004, the DMO has been responsible for the execution of orders received from members of the public under the Gilt Purchase and Sale Service.<sup>16</sup> This is a low-cost, execution-only service in gilts offered through the Registrar to smaller investors who have registered on the DMO's Approved Group.

83. Under normal circumstances, the DMO will transact these orders over its own portfolio, but, at times, the DMO may offset the effect on its portfolio by buying or selling gilts from GEMMs.

84. In the interests of transparency to investors, the DMO will publish on its website, on a daily basis, prices applicable to Purchase and Sale transactions executed on that day. This will take the form of a 'snapshot' of bid and offer prices in all gilts taken at the time that prices were confirmed to the Registrar, regardless of whether or not an order was actually received in each gilt. The exact timing of the snapshot will vary from day to day, but will usually be at around midday.

#### **4.3 Dealing on Behalf of Other Government Entities**

85. From time to time, the DMO may be asked to execute market transactions in gilts on behalf of funds under the management of CRND or other UK government entities. These may be purchases or sales. In such circumstances, the DMO may request bids or offers, as relevant, from three randomly chosen GEMMs, either electronically or by telephone, and deal on the best price received, provided that the order is for 'normal' market size. Where the size is smaller-than-average, the DMO may ask for prices from 'retail' GEMMs only, and where the size is deemed larger-than-average, the DMO may run a (reverse) tender, following the process described in Chapter 2 above.

#### **4.4 Standing Repo Facility**

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<sup>16</sup> Prior to December 2004 this was a responsibility of the Bank of England.

86. The DMO operates a Standing Repo Facility, whereby any GEMM who has signed the relevant documentation may request that the DMO lends out any gilt for repo purposes, which may involve temporary creation of the relevant gilt. The Facility exists in order to ensure that GEMMs can be assured of being able to access and deliver any gilt at any time, albeit at a price, hence maintaining their ability to make two-way prices in the secondary market and avoiding the prospect of delivery failures. The terms and conditions of the Facility are published in a separate notice on the DMO website, and may be revised from time to time.

#### **4.5 Special Repo Facility**

87. If the DMO considers that there is sufficient evidence of severe market dislocation or disruption, it may offer gilt(s) for repo-ing on different terms to those of the Standing Repo Facility to any GEMM (or, at the DMO's sole discretion, another counterparty) that in each case has signed the required legal agreements with the DMO.

88. Again, this may involve temporary creation of the relevant gilts. Such circumstances will need to have been persistent and are not likely to be tied to any single event (e.g. delivery of a cheapest-to-deliver gilt into a single futures contract) or difficulties encountered by a single market participant. The terms and conditions of the Facility, including any rate of repo, which may or may not be penal, and the amount of gilt(s) available for creation, will be announced on the DMO's wire services pages. Any subsequent cancellations or withdrawal of the Facility will be also announced in a similar fashion. As with the Standing Repo Facility, such operations will usually involve a back-to-back, cash-for-cash reverse repo of gilt collateral with the same counterparty(ies) at the Bank of England's prevailing Bank Rate.

89. Where amounts of gilts have been created temporarily under either Facility, providers of gilt indices may consider such amounts ineligible for inclusion, temporary or otherwise, in the calculation of their gilt indices.

#### **4.6 Purchases or Sales of Gilts for Other Reasons**

90. The DMO reserves the general right to purchase or sell (including issue) conventional and index-linked gilts for other reasons.

## 5. Announcements to the Market

91. In the interests of transparency and predictability, the DMO aims to release public announcements at set times of the day. For gilt auction and tender results this will usually be shortly after the designated bidding deadline. Unless otherwise mentioned, other announcements are generally released at 3:30pm or, if deemed particularly market sensitive, at 7:30am or 7:45am. Publication of consultation meeting summary minutes is usually at 8:00am on the following business day morning. Announcements are published via the DMO's information pages listed in Annex A and, when required, an approved information distribution firm recognised by the FCA. However, the DMO does reserve the right to make an announcement at any time, in relevant circumstances – for example, following the Chancellor's Budget speech.

92. As described in section 3.2, acknowledged IDBs will normally receive notice when announcements from the DMO are imminent.

93. The interest and redemption payments for all index-linked gilts with first issue dates before 2002 are fixed and published by the Bank of England. The DMO is responsible for fixing and announcing the interest and redemption payments for index-linked gilts first issued from 2002 onwards, and aims to announce details of these payments by 3:30pm on the day that the relevant RPI value is published. In every case, all fixings are published on the DMO website.

## 6. Contingency Arrangements

94. The DMO has in place a business continuity plan to accommodate interim and long-term arrangements should the DMO's normal operations be disrupted. In the event of delay, the DMO will endeavour to keep stakeholders and counterparties apprised of its operational status via announcements on its wire services pages and/or other means.

### 6.1 Auctions

95. Other than as envisaged in the DMO's remit, the postponement or cancellation of an auction would only be considered in limited circumstances. In the event that the DMO, or a significant number of GEMMs, are wholly or partially unable to function as normal, the DMO's preferred option may be to extend the bidding window, postpone the auction until later on the same day, or possibly the following morning, in order that the auction, and any When Issued<sup>17</sup> trades previously executed, may still be settled on the same day as originally advertised.

96. The incapacity of a single GEMM is unlikely to cause the postponement or cancellation of an auction. In the event of an interruption of this nature, the GEMM should contact the DMO as soon as possible in order that alternative arrangements for the submission of bids may be made. However, the DMO will not be able to offer any special facility to guarantee the allocation of gilts, other than the usual non-competitive allocation.

### 6.2 Secondary Market Dealing

97. The DMO may be prepared to exempt a GEMM from its market-making obligations, on a temporary basis, should that GEMM be incapacitated due to circumstances beyond its control.

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<sup>17</sup> Transactions entered into under London Stock Exchange Rule 1530.

# 7. Other Provisions

## 7.1 Jurisdiction and Governing Law

98. Subject as set out below, the courts of England and Wales shall have exclusive jurisdiction for the purpose of hearing and determining any suit, action or proceedings and/or to settle any dispute or claim (including any non-contractual dispute or claim) which might arise out of or in connection with this Operational Notice or its subject matter or formation including any transaction entered into under the provisions contained therein (Proceedings).

99. However, nothing in this provision shall (or shall be construed so as to) limit the right of the DMO to bring Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law. This clause is for the benefit of the DMO.

100. This Operational Notice and any notices making amendments to the Operational Notice together with any transaction entered into under its provisions, including non-contractual disputes or claims arising out of or in connection with their subject matter or formation, shall be governed by and shall be construed in accordance with the laws of England and Wales.

# Annex A. List of Current DMO Information Pages

## Website

[www.dmo.gov.uk](http://www.dmo.gov.uk)

## Index pages

Thomson Reuters – DMO/INDEX

Bloomberg – DMO <GO>

## Market announcement pages

Thomson Reuters – DMO/GILTS1 *et seq*

Bloomberg – DMO1 <GO>

## Standing and Special Repo Facilities

Thomson Reuters – DMO/REPO01

Bloomberg – DMO17 <GO>



# Annex B. UK DMO Syndications – Investor Allocation Guidance for GEMMs

At the outset of each transaction, once joint lead managers have been appointed, the DMO will communicate to them its strategic objectives for the syndication, including objectives for investor allocations (if any).

On the day of the syndication, the DMO may offer high-level guidance on investor allocations according to the size and quality of the order book, taking into account the anticipated final size of the transaction.

Beyond this, the DMO expects the joint lead managers to assume full responsibility for delivering an allocation that is consistent with the DMO's objectives.

Throughout this process, the DMO expects the joint lead managers to treat clients fairly and to undertake allocations in accordance with all applicable legal and regulatory requirements.