

THE DEBT MANAGEMENT OFFICE REMIT FOR 2001-02

A) Gilt remit

Objectives

1. The Debt Management Office (DMO), an Executive Agency of HM Treasury, has been given the following objectives in respect of Government debt management:

- to meet the annual remit set by HM Treasury Ministers for the sale of gilts with high regard to long-term cost minimisation taking account of risk;
- to advise Ministers on setting the remit to meet the Government's debt management objectives, and to report to Ministers on the DMO's performance against its remit, objectives and targets;
- to develop policy on, and promote advances in, new instruments, issuance techniques and structural changes to the debt markets that will help to lower the cost of debt management, liaising as appropriate with the Bank of England, Financial Services Authority, London Stock Exchange, and other bodies; and to provide policy advice to HM Treasury Ministers and senior officials accordingly;
- to conduct its market operations, liaising as necessary with regulatory and other bodies, with a view to maintaining orderly and efficient markets and promoting a liquid market for gilts;
- to provide, including in liaison with the Bank of England and CRESTCo, a high quality efficient service to investors in government debt, and to deal fairly and professionally with market participants in the gilt and money markets, consistent with achieving low cost issuance;
- to contribute to HM Treasury's work on the development of the strategy for the debt portfolio; and

- to make information publicly available on the debt markets and DMO policies where that contributes through openness and predictability to efficient markets and lower costs of debt issuance.

Quantity of gilt sales

2. The DMO, on behalf of the Government, will aim for gilt sales of approximately £13¹/₂ billion (cash) in 2001-02.

Pace of gilt sales

3. The DMO will aim to sell gilts at a broadly even pace through the year. Within-year seasonal fluctuations in the pattern of central government expenditure and revenue will be met by other financing means governed by the Exchequer Cash Management Remit.

Amount and maturity mix of index-linked gilt issuance

4. Over 2001-02, the DMO plans to sell £3.75 billion (cash), just under 30 per cent of its gilts sales, in index-linked stocks.

5. Four auctions of index-linked stocks are planned in 2001-02. Issuance will be directed at medium- and longer-dated maturities (i.e. stocks dated 2009 and longer).

6. To ensure the medium-term viability of the index-linked auction programme, the authorities remain committed to a minimum annual supply of £2.5 billion (cash) of index-linked stocks for the foreseeable future.

Amount and maturity mix of conventional gilt issuance

7. Four auctions of conventional stocks are planned in 2001-02; two in the long (15 years and over) maturity area and two in the medium (7-15 years) area.

8. HM Treasury will consider accommodating reductions in the forecast 2001-02 financing requirement by: a programme of debt buy-backs including reverse auctions (up to £1.5 billion); accommodating the surplus in the DMO's net cash position; reducing gilt supply; reducing the planned increase in Treasury bills; or some repayment of the Ways and Means facility at the Bank of England (up to £1 billion).

9. Increases in the financing requirement will be accommodated by a combination of: increasing gilts issuance; running down the DMO's net cash position; or increasing the planned outstanding stock of Treasury bills.

10. Specific decisions would be made in the light of circumstances.

Buy-backs of debt

11. The DMO may accept offers of stock from the market up to a total of £1.0 billion (cash) net of gilts in 2001-02. This will initially be through secondary market purchases rather than via a programme of reverse auctions.

Method of issuance of gilts

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

13. Each outright auction of conventional gilts is planned to be for between £1^{1/2} billion and £3 billion (cash) of stock on a competitive bid-price basis. Each auction of index-linked gilts will be for between £1^{1/2} billion and £1^{1/4} billion (cash) on a uniform price basis.

Gilt Auction Calendar 2001-02

Date	Type
Wednesday 25 April 2001	Index-linked
Thursday 24 May 2001	Conventional
Wednesday 25 July 2001	Index-linked
Wednesday 26 September 2001	Conventional
Wednesday 24 October 2001*	Index-linked
Wednesday 28 November 2001*	Conventional
Thursday 24 January 2002	Index-linked
Wednesday 27 March 2002*	Conventional

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

14. The programme of conventional and index-linked gilt auctions may be supplemented between auctions by official sales of stock by the DMO "on tap". Taps of stocks will be used only as a market management instrument in conditions of temporary excess demand in a particular stock or sector. The DMO would only contemplate taps of stocks in exceptional circumstances.

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

16. For the purposes of market management, the DMO may create and repo out stock in accordance with the provisions of its Standing Repo facility launched on 1 June 2000.

In-year consultation and announcements on auctions

17. Towards the end of each calendar quarter, the DMO will publish, with the agenda for the consultation meetings with gilt market participants, details of progress to date with the gilt issuance programme, including any changes to the Government's financing requirement and any changes to the gilts auction programme. The DMO will then consult Gilt-edged Market-Makers and representatives of end-investors on the auction programme for the following quarter and any other issues that may arise. Following that consultation, at the end of the quarter, the DMO will announce plans for the auctions scheduled for the coming quarter. For each auction, this will indicate the stock to be auctioned or, where relevant, the approximate maturity of a new stock.

18. The auction plan for the first quarter of 2001-02 will be announced at 3:30 p.m. on Friday 30 March 2001.

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

Coupons

20. As far as possible, coupons on new issues of gilts will be set to price the stock close to par at the time of issue. The DMO may consider establishing a new set of coupon dates on any stock issued in 2001-02.

Buy-ins of short maturity debt

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

Conversions and switch auctions

22. In order to build up the pool of benchmark stocks further, the DMO may in future make offers for the conversion of unstrippable stocks into benchmarks

of similar maturity during 2001-02. The DMO may consider converting out of stocks with up to £5.5 billion (nominal) in issue. Such offers may be supplemented by switch auctions into benchmark stocks during 2001-02. Subject to the conclusions of a consultation exercise with the market on the introduction of index-linked switch auctions, the DMO may launch such auctions in 2001-02. Details of any future switch auction stocks will be announced at the same time as the end-quarter announcements of forthcoming outright auctions.

Revisions to the remit

23. This remit, and in particular the number of auctions and the allocation between conventional maturity bonds and index-linked gilts, may be varied during the year in the light of substantial changes in the following:

- the Government's forecast of the gilt sales requirement;
- the level and shape of the gilt yield curve;
- market expectations of future interest and inflation rates; and
- market volatility.

24. Any revisions to this remit will be announced.