

AGENDA FOR THE CONSULTATION MEETINGS WITH END-INVESTORS (3.30PM) AND GEMMS (5.00PM) TO DISCUSS GILT ISSUANCE IN OCTOBER-DECEMBER 2009, ON MONDAY 17 AUGUST at:

EASTCHEAP COURT, 11 PHILPOT LANE, LONDON EC3M 8UD

The DMO would like to invite up to 20 end investors to contribute to a discussion on gilt issuance in October-December 2009. Attendees may be nominated by their representative organisations (e.g. NAPF, ABI etc.) or they may contact the DMO directly. Spaces are allocated on a first come, first served basis, at the DMO's discretion. Places will be limited to one person per organisation. Please contact Steve Whiting steve.whiting@dmo.gsi.gov.uk (020 7862 6532) or Sarah Ellis sarah.ellis@dmo.gsi.gov.uk (020 7862 6525) by close Friday 14 August if you would like to attend.

1. Review of gilt market operations to-date: June-September 2009
2. Feedback on syndication programme so far
3. New coupon dates for conventional and index-linked gilts – see Annex
4. Choice of conventional and index-linked gilts for auctions scheduled in October-December 2009

Table 1 below lists the 14 scheduled auction dates and weeks in which three gilt mini-tenders could potentially be held. For conventional gilts, a suggested schedule for the maturity of issuance is provided in Table 2 to facilitate the discussion.

Table 1: October-December Issuance Calendar

1-Oct	Conventional
6-Oct	Conventional
7-Oct	Index-linked
w/c 12-Oct	Tender
14-Oct	Conventional
22-Oct	Conventional
3-Nov	Conventional
4-Nov	Conventional
10-Nov	Conventional
12-Nov	Index-linked
w/c 16-Nov	Tender
24-Nov	Conventional
1-Dec	Conventional
2-Dec	Conventional
8-Dec	Conventional
9-Dec	Index-linked
w/c 14-Dec	Tender

Table 2: Suggested Maturity Split (Conventional Auctions)

1-Oct	Long
6-Oct	Short
7-Oct	IL
w/c 12-Oct	Tender
14-Oct	Medium
22-Oct	Short
3-Nov	Short
4-Nov	Long
10-Nov	Medium
12-Nov	IL
w/c 16-Nov	Tender
24-Nov	Medium
1-Dec	Short
2-Dec	Long
8-Dec	Medium
9-Dec	IL
w/c 14-Dec	Tender

- The DMO also seeks views on the potential timing and type (long conventional or index-linked) of gilts suitable for syndicated offerings, including in particular possible new long conventional and/or index-linked gilts that could benefit from being launched by syndication. The DMO also seeks views on whether there is merit in re-opening any existing bonds via syndication.

Conventional gilt issuance

The DMO suggests holding four short-dated, four medium-dated and three long-dated auctions in October-December 2009.

The suggested maturity schedule of conventional issuance in Table 2 reflects the DMO's aim to provide regularity in the issuance calendar across each maturity sector.

The DMO's ongoing policy is to build up new gilts to benchmark size. In decisions on the maturity of new gilts the DMO will consider the impact on the redemption profile.

- Short-dated: The DMO anticipates that there might be at least one re-opening of one or both of 5% 2014 and 4½% 2013. The DMO welcomes views on the number and timing of any such re-openings and any other potential existing candidates. The DMO is also minded to launch in the coming quarter a new gilt maturing in financial year 2014-15 and welcomes views on this. Views are also sought on the timing for launching any potential new issue within the quarter and on the scope to re-open any new bond later in the quarter.
- Medium-dated: The DMO anticipates re-opening 3¾% 2019 and 4% 2022 as part of the policy of building up 10-year benchmark issues. The DMO welcomes views on the timing and frequency of these re-openings. The DMO also welcomes views on whether there are any other medium-dated candidates for re-opening.
- Long-dated: The DMO anticipates that there might be at least one re-opening of both 4½% 2034 and 4¼% 2039 and welcomes views on the number and sequencing of re-openings of these bonds. Views are also sought on any other candidates for long-dated gilt auctions and possible timings for these, taking into account the potential for a syndicated offering of a long-dated conventional bond during the period. The DMO will also be seeking market feedback on candidate bonds, or maturity bands, for syndicated offering(s), along with views on the timing of such issuance.

Index-linked gilt issuance

There are three index-linked auctions scheduled in October-December. The DMO welcomes views on candidates for index-linked gilt auctions and possible timings for these, taking into account the potential for a syndicated offering of an index-linked gilt during the period.

The DMO will also be seeking market feedback on candidate bonds, or maturity bands, for syndicated offering(s), along with views on the timing of such issuance. This includes the already-announced intention to sell index-linked gilts via syndication in September.

5. Any other business

The next consultation meetings to discuss gilt issuance in January-March 2010 will be held at 3.30pm on Monday 23 November, subject to the Chancellor's decision on the timing of the 2009 Pre-Budget Report.

Annex

NEW COUPON DATES FOR CONVENTIONAL AND INDEX-LINKED GILTS

The DMO is currently considering the introduction of new sets of coupon dates for both conventional and index-linked gilts, and is seeking gilt market participants' views on the introduction of two new coupon series.

It is intended that, subject to market feedback, the DMO may issue into any newly announced coupon series in the forthcoming quarter. Any decision to introduce new coupon dates for conventional and/or index-linked gilts will be announced at the time of the publication of the issuance calendar for Q3 2009-10 on 28 August 2009.

Conventional Gilts

The first series of aligned coupon dates for conventional gilts was introduced prior to the start of the gilt strips market in 1997, with gilt issuance concentrated into gilts paying coupons on 7 June/7 December. A second series of coupon dates was introduced in 2001, paying coupons on 7 March/7 September. At end-July 2009, there was £273bn nominal outstanding in gilts paying coupons on 7 June/7 December and £307bn in gilts paying coupons on 7 March/7 September.

Since the introduction of these two series, the coupon and redemption payments made on these dates have increased significantly as the size of the Government's financing programme has grown and the DMO continues to pursue an issuance strategy which focuses on building large, liquid, benchmark gilts.

With the growth in coupon and redemption payments, the DMO believes that it would be prudent for the efficient delivery of its debt and cash management remits to consider the introduction of new coupon dates for conventional gilts to spread payments more evenly throughout the financial year. In addition, it is expected that new coupon dates for conventional gilts will benefit the market by pacing re-investment flows more evenly throughout the year.

The DMO is proposing new conventional gilt coupon dates on 31 January/31 July, although it welcomes market views on this and any other pair of new coupon dates. In the event that a third set of conventional coupon dates is introduced, the DMO may later consider the introduction of a fourth set, on dates equidistant to the new series, (e.g. 30 April/30 October depending on the choice for any new third set of coupon dates).

It is anticipated that, going forward, issuance of any new conventional gilts may use either existing or any new coupon dates.

The DMO intends that gilts issued on any new coupon dates will be made strippable in due course, subject to market demand.

Index-linked Gilts

The current coupon dates used for issuance of new index-linked gilts, on 22 May/22 November, were introduced at the time of the first issuance of three-month lag index-linked gilts following the syndicated offering of 1½% Index-linked Treasury Gilt 2055 in September 2005. Since that date, all new index-linked gilts have paid coupons on 22 May/22 November. As at end-July 2009, there was £66.9bn uplifted nominal outstanding in index-linked gilts paying on these dates.

As the amount outstanding of gilts paying coupons on 22 May/22 November has grown, there have been some calls from gilt market participants for the DMO to issue index-linked gilts with a different set of coupon dates in order to smooth the payment of cashflows into the index-linked gilt market, in particular to help market participants manage the reinvestment of index-linked gilt coupon payments.

The DMO is receptive to the view that there may be wider benefits for market participants from the introduction of a new coupon series, which will help to maintain a liquid and efficient market for index-linked gilts.

As such, the DMO welcomes market views on the choice of new coupon dates for index-linked gilts. It sees some merit in spacing out index-linked cashflows evenly through the course of the financial year and is seeking feedback on the use of 22 February/22 August for the payment of coupons on new index-linked gilts, but welcomes views from market participants on alternative choices.

In particular, the DMO seeks views on any significant factors that should be taken into consideration in determining new coupon dates for index-linked gilts, including the implications that any set of dates will have for related derivative markets.

Due to the technical features of three-month lag index-linked gilts, it is not envisaged that any set of new index-linked coupon dates would pay early in the month.

It is envisaged that any new index-linked gilts would pay coupons on the new series of coupon dates, although the DMO does not rule out issuance of new index-linked gilts paying coupons on the existing 22 May/22 November dates.

There is no current intention to introduce a stripping facility for index-linked gilts.

Responses

Any comments on these proposals should be sent by close of business on **Friday 21 August 2009** by email to policy@dmo.gsi.gov.uk.

Any enquiries should be addressed to James Knight, tel +44 (0) 20 7862 6571; email james.knight@dmo.gsi.gov.uk.