

## **PRESS NOTICE**

### **POSSIBLE SUPPLEMENTARY GILT DISTRIBUTION METHODS: MARKET CONSULTATION**

The UK Debt Management Office (DMO) is today launching a consultation on the potential introduction of additional distribution methods to supplement gilt auctions from 2009-10 onwards. The DMO is seeking views from all gilt market participants on the need for, and design of, such methods by 28 January 2009. Any decisions arising from the consultation will be announced in the DMO's debt financing remit for 2009-10, to be published alongside Budget 2009.

Gilt auctions have worked successfully to-date to deliver the Government's financing needs and are the Government's preferred means to distribute gilts and, as such, will remain the key means by which debt financing programmes are implemented in future. Similarly, the DMO values greatly the relationship with the Gilt-edged Market Makers (GEMMs) and considers it essential that any supplementary gilt distribution method is consistent with the maintenance and orderly functioning of the primary dealer system.

However, the DMO wishes to explore with all gilt market participants whether there is a need to support the auction process with the use of supplementary gilt distribution methods and, if so, what methods should be introduced. A key objective would be better to facilitate an increased outright supply of long-dated and index-linked gilts in the context of both high forecast financing requirements in the next few years and the Government's medium term strategy to skew issuance towards long-dated maturities, in the event that strong demand for long-dated and index-linked gilts continues to influence the shape of the nominal and real yield curves. Responses from the pension and insurance sectors and other investors in long-dated and index-linked gilts are particularly welcome in this context.

The consultation document refers to a number of possible supplementary distribution methods including the ongoing use of mini-tenders, syndication and other potential supplementary methods such as direct placement of gilts with investors. However, these are not exhaustive of the possible supplements to auctions and responses are also welcome on other supplementary distribution methods that could be in the interests of both the Government and gilt market participants.

The Government will weigh the costs and benefits for both the Government as issuer and the market of introducing supplementary gilt distribution methods before deciding whether or not to do so. Before introducing any supplementary gilt distribution method the Government would have to be satisfied that it would be:

- consistent with achieving the Government's debt management objective and with the principles of openness, predictability and transparency that underpin debt management policy; and
- compatible with the gilt market making system – i.e. the role of the GEMMs as the DMO's main counterparties in conducting debt management operations.

Commenting on the launch of today's consultation, the DMO's Chief Executive Robert Stheeman, said

*"Today's announcement is, I believe, an important reflection of the DMO's commitment to work with our market to deliver the challenging financing remits in the next few years. Whilst the current distribution system is working well, and the progress in meeting this year's remit is testament to the commitment of our primary dealers, there should be no room for complacency in the current market environment.*

*The primary purpose of this exercise is to solicit views from all market participants on possible steps we might take to facilitate the supply of more long-dated gilts in particular, than would otherwise be the case. I encourage as many gilt market participants as possible to respond, including representatives of end investor groups. We will listen very carefully to the feedback we receive.*

*The nature and extent of that feedback will be crucial in helping the Government decide whether or not to introduce any changes. We will need to be satisfied that any supplementary methods of distribution we might introduce are consistent with our debt management objectives and have widespread support from market participants".*

## NOTES TO EDITORS

The Government's planned gilt issuance programme for 2008-09 has a record amount of issuance both in nominal terms (£146.4 billion) and as a proportion of gross domestic product. Illustrative gross financing projections for 2009-10 to 2012-13 published alongside the Pre-Budget Report (PBR) 2008 suggest that historically high levels of gilt issuance are likely to continue in the next four financial years (the period for which projections have been published).

### Illustrative gross financing requirements<sup>1</sup> published at PBR 2008

£bn	2009-10	2010-11	2011-12	2012-13
CGNCR projections	126	108	97	80
Gilt redemptions	17	39	38	24
Financing requirement*	143	147	135	104
<b>CGNCR change since Budget 2008</b>	<b>77</b>	<b>67</b>	<b>57</b>	<b>48</b>
<i>*indicative gross financing requirements.</i>				

<sup>1</sup> These are not gilt sales forecasts – they take no account of the potential contribution to financing by National Savings & Investments or Treasury bill sales.