



United Kingdom  
Debt Management  
Office

## **GEMM Guidebook**

A guide to the roles of the DMO and  
Primary Dealers (GEMMs) in the UK  
government bond market

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# Executive Summary: GEMM Criteria, Obligations and Privileges

The following are the general criteria, obligations and privileges for the DMO's approved primary dealers in the UK sterling government bond market, which are known as Gilt-edged Market Makers (GEMMs). GEMMs may offer services to wholesale and/or retail sectors of the investor base, and specialise in conventional gilts, inflation index-linked gilts or both. These criteria, obligations and privileges apply to all such categories of GEMMs unless otherwise specified.

## Essential Criteria for all GEMMs

To become and maintain their status as a GEMM, firms must meet the following criteria:

1. **Demonstrated long-term commitment** to the UK government bond market.
2. **A viable business plan**, bringing sustainable value to the gilt market. Firms should look to meet existing market demand and to widen the investor base for gilts where appropriate.
3. **Sufficient balance sheet capability** to support activity in the gilt market.
4. **A credit standing** indicative of their long-term viability in the gilt market.
5. **Adequate staffing resources at all times**, including trading, sales, research, risk management, settlement and compliance professionals. Key personnel risk should be appropriately managed.
6. **Relevant technological capabilities**, including being in a position to settle gilt transactions in CREST.
7. **All GEMMs must be authorised by (i) the Financial Conduct Authority (FCA) and (where applicable) the Prudential Regulation Authority (PRA) or (ii) equivalent EEA regulatory authority(ies), and be registered as a market maker with a Relevant Exchange. GEMMs must provide the DMO with written approval or confirmation of non-objection from these bodies to undertake activities as a GEMM.** In this document Relevant Exchange refers to an EEA regulated market on which gilts are listed with the consent of the DMO.
8. **A willingness to sign up to all of the DMO's requirements and expectations.**

## GEMM Obligations and Expectations

Firms recognised by the DMO as wholesale GEMMs agree to meet a number of obligations on a continuous basis. The obligations are as follows:

### *A. Participation in primary issuance*

1. **GEMMs are expected to play an active role in the issuance, distribution and marketing of UK government debt.**
2. **GEMMs should aim to purchase at least 2.0% of gilt issuance by sector, conventional and index-linked, on a six-month rolling average basis.**
3. **GEMMs are expected to participate in every operation for which they are a designated market maker. GEMMs must aim to participate effectively in the price formation process at auctions: it is envisaged that each wholesale GEMM's bids would amount to the equivalent of at least 5.0% of the amounts issued, calculated on a six-month rolling average basis.**

## *B. Market making*

1. **GEMMs are committed to make, on demand and in all conditions, continuous and effective two-way prices** to their clients, in all gilts for which they are recognised as a market maker.
2. **GEMMs must aim to achieve and maintain an individual secondary market share of at least 2.0% on a 6-month rolling average basis**, in the sectors for which they are a recognised market maker.

## *C. Provision of data and information to the DMO and investors*

1. **All GEMMs are required to provide the DMO with data in a pre-specified format relating to positions and weekly turnover. The DMO also expects GEMMs to provide real-time prices or accurate mid-market indications to at least one wire services provider and/or electronic trading platform.**
2. **All GEMMs must install and maintain any designated IT and telecommunications links with the DMO.**
3. **GEMMs are actively encouraged to provide market intelligence to the DMO** and are required to respond promptly to market consultations and/or requests for information.

## **GEMM Privileges**

In return for undertaking the obligations detailed above, GEMMs are entitled to certain privileges in the gilt market, as follows:

### *A. Auction bidding*

1. **GEMMs are the only institutions eligible to submit competitive bids directly to the DMO.**
2. **GEMMs are entitled to a share of a non-competitive allowance of 15% of the total amount of gilts on offer at auctions**, defined as:
  - a. a pro-rata share at the average accepted price for conventional auctions; or
  - b. a performance-related share at the strike price for index-linked auctions, determined by performance at the previous three index-linked auctions.

### *B. Preferred counterparty status*

1. **When dealing in the gilt-edged secondary market for debt management purposes, the DMO will only deal with GEMMs.<sup>1</sup>**
2. **Only wholesale GEMMs are normally invited to become members of any lead management group for syndicated offers.<sup>2</sup>**
3. **GEMMs have the right to strip and reconstitute gilts through CREST.**
4. **GEMMs are exclusively eligible to be considered for participation in DMO standing repo operations, provided that they have signed the relevant legal documentation.**

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<sup>1</sup> Except that the DMO may also deal with Inter-Dealer Brokers in transacting near maturity gilts for cash management reasons.

<sup>2</sup> This privilege is not usually conferred on either wholesale GEMMs on probation or retail GEMMs.

*C. Other privileges*

1. **All GEMMs are invited, and expected, to participate in annual and quarterly consultation meetings.**
2. **GEMMs have access to the services of acknowledged Inter-Dealer Brokers (IDBs).**

# 1. Gilt-edged Market Makers

## 1.1 Introduction

1. This Guidebook sets out the United Kingdom Debt Management Office's (DMO) relationship with, and expectations of, its primary dealer firms, the GEMMs. It updates and replaces all previous versions of this document, the most recent of which was published in December 2018, and will come into effect from 6 April 2020. Please note that the DMO has separate arrangements and counterparty relationships for the execution of its cash management operations.

2. Whilst the DMO has endeavoured to ensure the accuracy of this document and details are believed to be accurate at the time of publication, the DMO accepts no responsibility for any omissions or errors relating to market practices or regulations and market participants should undertake their own due diligence where appropriate.

3. Details about the DMO's dealing and auction procedures are set out in the DMO's Operational Notice "Official Operations in the Gilt Market".<sup>3</sup> That publication should be read in conjunction with this Guidebook.

4. Any questions or requests for further information regarding the content of this document should be addressed to Gilt Dealers, UK Debt Management Office, Eastcheap Court, 11 Philpot Lane, London, EC3M 8UD, telephone number +44 (0)20 7862 6517 or email [markets@dmo.gov.uk](mailto:markets@dmo.gov.uk).

## 1.2 Background and Essential Criteria for GEMMs

5. GEMMs may offer services to wholesale and/or retail sectors of the investor base, and specialise in conventional gilts, inflation index-linked gilts or both.

6. GEMMs are also invited to be designated as a Strips<sup>4</sup> Market Participant, prepared to offer a service in strips to end-investors.<sup>5</sup>

7. All GEMMs must be authorised by (i) the FCA and (where applicable) the PRA; or (ii) equivalent EEA regulatory authority(ies), and be registered as a market maker with a Relevant Exchange. GEMMs must provide the DMO with written approval or confirmation of non-objection from these bodies to undertake activity as a GEMM. The DMO is not a regulatory authority. Regulatory responsibility for the market for UK government bonds falls to the FCA (and, in other jurisdictions, may also fall to other regulatory authorities). All market participants must abide by their regulatory obligations and relevant codes of conduct or best practice at all times.

8. GEMMs must also demonstrate a long-term commitment to the UK government bond market and have a viable business plan, bringing sustainable value to the gilt market. Firms should look to meet existing market demand and seek to broaden the investor base for gilts, where appropriate.

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<sup>3</sup> Both this GEMM Guidebook and the Gilt Market Operational Notice can be found on the DMO website at [www.dmo.gov.uk](http://www.dmo.gov.uk).

<sup>4</sup> A reference to strips or a strip is a reference to Separately Traded Registered Interest and Principal Securities (STRIPS). See the latest version of Information Memorandum, Issue, Stripping and Reconstitution of British Government Stock, available on the DMO website.

<sup>5</sup> 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.

9. GEMMs must have sufficient balance sheet capability to support activity in the gilt market and a credit standing indicative of their long-term viability in the gilt market.
10. GEMMs must also have adequate staffing resources at all times, including trading, sales, research, risk management, settlement and compliance professionals. Key personnel risk should be appropriately managed.
11. GEMMs must have relevant technological capabilities, including being in a position to settle gilt transactions in CREST.
12. GEMMs must also demonstrate a willingness to sign up to all of the DMO's requirements and expectations.
13. GEMMs must also satisfy certain other obligations, described below, in order to be granted and maintain primary dealer status with the DMO.

### **1.3 Definition of a GEMM**

14. The DMO defines a GEMM as a bank or securities firm that has committed to the requirements of each of the DMO and any Relevant Exchange, and has been formally recognised as such by the DMO.
15. A distinction is made between wholesale and retail GEMMs in terms of title, privileges and obligations, according to that GEMM's target investor client base. Unless otherwise identified, all references to 'GEMM' in this document refer to both categories of primary dealer in the UK.
16. As the requirements apply only to sterling-denominated UK government bonds, the appropriate head of department at each firm should discuss and agree with the DMO which members of its trading and support staff are to be classified as part of the GEMM. The DMO recognises that different firms may have differing organisational and reporting structures for sterling rates trading, but it will aim to ensure as much equivalence as possible between GEMMs, in order to maintain a uniform level of access rights and obligations of dealers in the gilt market, and the reporting and assessment of turnover, market shares and overall performance as a GEMM.
17. In the interests of fairness and transparency, the DMO will endeavour to treat all GEMMs as equals in its dealings. The DMO may, however, make a distinction between wholesale GEMMs and retail GEMMs.

### **1.4 GEMM Obligations and Privileges**

#### **A. GEMM obligations**

18. Firms recognised by the DMO as GEMMs agree to meet a number of obligations on a continuous basis. These obligations are to ensure that GEMMs provide appropriate support to the primary issuance of government debt and contribute to the liquidity of the secondary market. The DMO expects management and compliance departments at GEMMs to be aware of these obligations and to ensure that they are adhered to in a robust and proper manner. The DMO may seek periodic written assurances from GEMMs that appropriate systems and procedures are in place to meet these obligations. The obligations are as follows:

##### *i) Participation in primary issuance*



19. GEMMs enjoy the privilege of being able to bid directly to the DMO in gilt auctions, and, as such, are expected to play an active role in the issuance, distribution and marketing of gilts. All GEMMs are invited, and expected, to participate in annual and quarterly consultation meetings and all are expected to participate in a meaningful way in the auction process itself.

20. It is the DMO's view that it is not appropriate to set minimum bidding or allocation targets for individual GEMMs at every auction. Nevertheless, the DMO sees it as an essential role of GEMMs to be actively involved in the distribution of issuance in the sectors in which they are designated as a GEMM. To this end, wholesale GEMMs should participate in every auction of gilts for which they are a market maker and each wholesale GEMM should aim to purchase at least 2.0% of such amount issued, on a six-month rolling average basis. The DMO also sees it as important to encourage wholesale GEMMs to participate effectively in the price formation process at auctions, to which end it envisages that each wholesale GEMM's bids would be the equivalent of at least 5.0% of the amounts issued, measured on a six-month rolling average basis.

21. GEMMs are reminded that information about trading interests, bids/offers or transactions may be subject to confidentiality obligations or other legal restrictions on disclosure (including pursuant to competition law). Improper disclosure or collusive behaviour will fall below the standards expected of GEMMs, and evidence or allegations of such behaviour will be escalated to the appropriate authority(ies).

#### *ii) Market making*

22. All GEMMs are committed to make, on demand and in all trading conditions, continuous and effective bid and offer prices to their clients in all gilts in which they are recognised as a market maker. The purpose of this obligation is to ensure that GEMMs provide a continuous pricing service and liquidity to all other market participants. However, GEMMs are not obliged to make prices to clients with whom they have not yet conducted due diligence enquiries.

23. GEMMs have no obligation to quote prices to other GEMMs, and price provision to IDBs is discretionary, as is the provision of prices to an agency firm or electronic platform dealing on behalf of a third party, where that party is identified as (likely to be) another GEMM desk.

24. GEMMs are expected to stand ready to make prices at all times between the hours of 8:00am and 5:00pm (UK time) on UK 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 relevant exchanges. In addition, 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.

25. GEMMs may commit to making markets in conventional gilts, index-linked gilts or in both. They are expected to achieve and maintain a market presence sufficient to earn them an appropriate share of secondary market turnover. The DMO would expect all wholesale GEMMs to aim to achieve and maintain an individual share of at least 2.0% in conventional gilts and/or in the index-linked sector (as appropriate), on a six-month rolling average basis. Turnover expectations for retail GEMMs will be agreed on a bilateral basis, but tailored to reflect the smaller average volumes traded by such GEMMs. GEMMs may also apply for additional designation as a Strips Market Participant, where they are committed to making prices in strips to clients.

#### *iii) Provision of data and information to the DMO*

26. All GEMMs are obliged to provide the DMO with data in a pre-specified format relating to positions and weekly turnover, in order that the DMO can monitor that GEMMs are fulfilling

obligations. The DMO also expects GEMMs to provide real-time prices or accurate mid-market indications to at least one wire services provider and/or electronic trading platform. The DMO publishes aggregated turnover data on its website.

27. All GEMMs and acknowledged IDBs must install and maintain designated IT (including Bloomberg) and telecommunications links with the DMO. These are used by GEMMs for position and turnover reporting, bidding at auctions, secondary market dealing and provision of other market information, and by IDBs for reporting secondary market price and turnover information. GEMMs and IDBs must also be in a position to settle gilt transactions through CREST.

28. GEMMs and IDBs are also encouraged to provide oral and/or written market intelligence to the DMO concerning corporate developments, market movements and investor trends, and to respond promptly with due consideration to any market consultation exercises.

## **B. GEMM privileges**

29. In return for undertaking the obligations detailed above, GEMMs are entitled to certain privileges in the gilt market, as follows:

### *i) Auction bidding*

30. GEMMs enjoy the privilege of being eligible to submit competitive bids directly to the DMO. This means that all other market participants wishing to submit a competitive bid at a gilt auction must route their order(s) through one or more GEMMs. Any client order submitted by a GEMM must be identified as such.

31. GEMMs are each entitled to a share of a non-competitive allowance of 15% of the total amount of the gilts on offer at an auction. If applied for, these gilts are allocated at the average accepted price of successful competitive bids in conventional gilt auctions, and at the single strike price in index-linked auctions. In conventional gilt auctions, the 15% allowance is split pro-rata amongst all wholesale GEMMs, while, for index-linked auctions, individual GEMM shares of the allowance are determined by reference to that GEMM's successful competitive bidding results in the three previous index-linked gilt auctions.

### *ii) Preferred counterparty status*

32. In almost all of its gilt market operations, the DMO transacts only with the GEMMs. This includes the receipt and allocation of (successful) auction bids, as well as any regular dealing or special operations that it might conduct in the secondary market.

33. Except for transactions in near maturity gilts, when dealing in the gilt-edged secondary market for debt management purposes, the DMO will only deal with GEMMs. The DMO may be active in the secondary market in a number of areas – for example, executing transactions on behalf of members of the public<sup>6</sup> or various government funds managed by the CRND<sup>7</sup> and others, and smoothing redemption cash flows through the purchase of near maturity gilts. In the latter case only, the DMO may also deal with IDBs.

34. In selecting lead and co-lead managers for syndicated issues of gilts, the DMO will generally only consider wholesale GEMMs<sup>8</sup> for membership of the lead manager group.

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<sup>6</sup> Members of the DMO's Approved Group of Investors.

<sup>7</sup> Commissioners for the Reduction of the National Debt.

<sup>8</sup> Excluding GEMMs on probation.

35. Additional dealing privileges associated with GEMM status include the right to strip and reconstitute gilts through CREST and, provided that the relevant documentation has been satisfactorily completed and agreed with the DMO, GEMMs are eligible to participate in DMO standing repo operations.

*iii) Other privileges*

36. As stated above, GEMMs have access to the services of acknowledged IDBs, which enables them to unwind or acquire positions in gilts or gilt-related products anonymously with their peers.

37. Recognised GEMMs are automatically invited to send a representative to the DMO's quarterly and annual consultation meetings on issuance policy.

**C. Rules of Relevant Exchanges and regulatory authorities**

38. The DMO's obligations and privileges operate in parallel with any Relevant Exchange's rulebook, which may set out its own requirements for market makers and/or IDBs as members of that exchange. GEMMs (firms and individuals) will also be subject to legal and regulatory requirements in respect of their dealing and trading functions, the transactions they enter into and their relationship with the DMO, and it is their responsibility to abide by these laws and regulations in all relevant jurisdictions at all times. IDBs will also be subject to legal and regulatory requirements and it is each IDB's responsibility to comply with all applicable laws, rules and regulations in the relevant jurisdictions at all times.

## 2. Data Provision

### 2.1 Data Provision by the GEMMs

39. All GEMMs are required to provide the DMO with certain information in a prescribed format and to a prescribed timetable as detailed in the paragraphs below.

40. In addition, GEMMs are strongly encouraged to provide comprehensive and accurate real-time price information to their client bases, either through proprietary dealer-to-customer platforms, wire services or multi-dealer electronic trading platforms or exchanges. The DMO expects GEMMs to provide real-time prices or accurate mid-market indications to at least one wire services provider and/or electronic trading platform. The DMO would expect to be treated as a GEMM's client in respect of being granted access to the provision of such prices, even if this is on a 'view-only' basis.

#### A. GemmData SFTPs

41. The DMO uses electronic file transfers for the provision of positions and weekly turnover reports. Data are transferred over a secure file transfer protocol (SFTP) system known as GemmData. All GEMMs (and IDBs) must install and maintain/upgrade their systems in order to be able to transmit sensitive data in a secure, accurate and timely fashion, in the prescribed format.

42. Each GEMM and IDB is issued with a unique username and SSH encryption key for logging on to the system, which can be renewed periodically. Personnel transmitting the data should always ensure that they are using the most up-to-date version of the software and that they send the correct file by the specified time deadline. Files are acknowledged as 'received' by the DMO, before being scanned for formatting/content errors. Any errors found will generate an error message, which is sent back to the GEMM's chosen email address(es). Any such error messages should be heeded and acted upon in a timely manner and, where necessary, a corrected file re-transmitted as soon as possible.

43. Whilst the DMO's system can screen for errors in the formatting and, to a certain extent, the content of these files, it is the responsibility of each GEMM and IDB to ensure that the transmission of their files is (a) timely, (b) comprehensive, and (c) wholly accurate. Any errors or omissions will affect the integrity of the data in the system.

44. Any queries regarding operation of the SFTP reporting system should be addressed to the DMO's dealing desk. A document detailing the exact formatting of GEMM files is attached at Annex B of this publication.

#### B. Positions data

45. GEMMs are required to submit a daily file to the DMO, giving details of all the end-of-day positions held by the GEMM in gilts, including strips. The DMO will use only aggregated data where relevant to inform its issuance decisions and/or terms of any special repo facilities. The DMO protects such data as 'commercially confidential', but reserves the right to share them with regulators and other market authorities in appropriate circumstances.

46. A GEMM's daily position file should also provide details of any trades over a specified minimum size that have failed on that day, or that are still outstanding as unsettled from a previous fail. These data will also be treated as commercially confidential by the DMO (but may be shared with other market authorities in appropriate circumstances).

47. These files may be submitted to the DMO, in the designated format and using designated channels, any time between 5:00pm on each trading day and 9:00am on the following business day.

### **C. Turnover data**

48. On a weekly basis, all GEMMs are required to submit details of all transactions in gilts executed during the Monday-Friday period of the previous week. These files must be submitted by 9:00am on the Tuesday of the following week (or the second business day where there is a Bank Holiday), in the designated format and using designated channels. This file must be dated with the Friday of the week to which it relates, regardless of whether or not that Friday was a Bank Holiday (e.g. Good Friday).

49. GEMM turnover files are to be reported by ISIN code and prescribed counterparty type brackets, details of which can be found at Annex B of this document. Note that turnover volumes are to be reported both in nominal terms and by market value (i.e. nominal amount multiplied by the dirty price/100).

50. In order to maintain the accuracy and integrity of the data, it is essential that all GEMMs maintain their systems constantly, in terms of sifting the relevant data, counterparty classifications, stock lists and valuations. This means, for example, that each GEMM's systems must be able to collect and collate each week's turnover data and correctly identify which trades are allocated to which counterparty type. It is the responsibility of individual GEMMs to ensure that they are complying with these requirements.

### **D. Auction day and syndication trade reports**

51. On the day of a gilt auction, conventional or index-linked, GEMMs are required to provide details of transactions over a designated minimum size<sup>9</sup> executed on the day of each auction. These details should be submitted by email to the DMO by 9:00am on the morning after each auction, on the template form provided. The DMO may also request that GEMMs involved in a syndicated gilt offering – lead managers and/or co-managers – submit similar reports over a specified period and in specified gilts, in a given template form.

52. The DMO requests these data for its own analytical purposes. The DMO will treat all such submissions as commercially confidential to the fullest extent permitted by law, but reserves the right to share them with regulators and other market authorities in appropriate circumstances. Responsibility for compliance monitoring of a GEMM's activity at or around auctions and other operations remains with the GEMM itself and its regulator.

## **2.2 Data Provision by the DMO**

### **A. Weekly turnover and market shares**

53. Turnover data submitted by the GEMMs to the DMO is collected and collated on a weekly basis. From the data received, the DMO calculates total aggregate turnover volumes in the various maturity bands, types of gilt and on an overall basis, making a distinction between counterparties regarded as 'professional' and those regarded as 'customers'.

54. The DMO defines GEMMs' 'professional' counterparties as the DMO itself, the Bank of England, any other recognised GEMM or IDB and any Agency Broker acting as an agent for a third party, regardless of whether or not that agent is dealing as a matched principal or on a name-give-up basis. All other counterparties (i.e. those dealing directly with GEMMs for their

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<sup>9</sup> These amounts are varied according to the nature of the gilt being auctioned and amount already in issue.

own account) are regarded as 'customers'. Turnover generated on electronic dealing platforms counts as 'professional', where the trades are booked to a central counterparty or another GEMM, but as 'customer' business where resultant trades are booked directly with the end-investor. Both these groups may be further split into more granular sub-groups. The DMO also calculates individual GEMM market shares in the various maturity bands, types of gilt and on an overall basis, again making a distinction between different counterparty types. The DMO regards the provision of liquidity to a broad group of stakeholders and across the yield curve as a means of enhancing price discovery and market efficiency.

55. Market share data are collated by the DMO on a weekly basis, normally on a Tuesday, assuming that all contributions have been received on a timely basis. Outputs from DMO systems are checked by the DMO before being released for publication to GEMMs. These checks may involve DMO dealers querying or verifying any unusual data with relevant GEMM dealers. Any GEMM wishing to query or verify the output should contact the DMO immediately upon receipt of its file. Aggregated, but non-specific, data output may also be published to the wider market for information purposes.

## **B. Quarterly turnover**

56. Weekly turnover files and data, submitted to the DMO by GEMMs, are also used for the aggregation and production of quarterly turnover and market share data, which may be published to individual GEMMs and, on an aggregated basis, to the wider market on the DMO website. Note that these data cover only those transactions conducted by recognised GEMMs, and are therefore not wholly comprehensive in terms of turnover in the entire gilt market. Nevertheless, it should represent a significant proportion of transaction volume.

57. Each quarter is taken as a 13-week period, starting as closely as practicable to the beginning of January, April, July and October and ending as closely as practicable to the end of March, June, September and December respectively. Dealers and other market participants can therefore expect publication of quarterly data in the first week or so of the following three-month period.

## **2.3 Freedom of Information**

58. Since 1 January 2005, the DMO is, as a 'public authority', subject to the provisions of the Freedom of Information Act 2000, under which any person may make a request seeking information held by the DMO. Upon receipt of such a request, the DMO must balance the legitimate interests of all parties involved against public expectations of accountability, openness and transparency.

## **2.4 Data Protection**

59. Personal data submitted to the DMO will be processed in accordance with the relevant data protection laws as applicable to the DMO. For more information on how the DMO handles personal information, please see the DMO's "Privacy Notice" available on the DMO website<sup>10</sup>. All GEMMs must abide by, and are responsible for ensuring compliance with, all data protection laws applicable to them.

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<sup>10</sup> Available at: <https://www.dmo.gov.uk/terms-of-use/privacy-notice/>

## 3. Relationship Management

60. The DMO endeavours to manage relationships between the parties involved in the following respects.

### 3.1 Contact

61. GEMMs are expected to provide the DMO with a list of relevant personnel involved with the gilt market-making operation. This should include the names, telephone numbers and email addresses of the following: all traders, senior sales people, compliance officers, and settlement and data reporting contacts. GEMMs should endeavour to ensure that these lists are kept up-to-date and that any changes in such personnel are notified to the DMO in a timely fashion. It is important that contact details are accurately maintained, particularly for business continuity planning purposes and access to the Bloomberg Auction System.

62. Each GEMM is encouraged to install and maintain a direct telephone line between its gilt trading desk and the DMO's dealers. This line is used for trading enquiries and as a back-up for the submission of auction bids, but may also be used for any other purposes necessitating dialogue between the respective dealing teams.

63. The DMO's dealers may also be contacted via e-mail or Bloomberg messaging services. Other members of DMO staff may be contacted in the same way, or on an outside telephone number.<sup>11</sup>

### 3.2 Bilateral Meetings

64. The DMO aims to conduct bilateral meetings with representatives of each GEMM on a regular basis for relationship management reasons. These meetings are usually attended by the DMO's gilt dealers and members of the DMO's senior management team, one or more policy team member/s and, from the GEMM, trading desk representatives, including the head of the desk, and a senior manager.

65. The agenda for each of these meetings may vary according to topical issues, individual views and circumstances, but the relevant GEMM's corporate and staffing issues and participation in the primary and secondary markets are likely to be reviewed and discussed. The DMO may take minutes at such meetings for purposes of internal reporting.

### 3.3 Ad-hoc Contact

66. Meetings between GEMMs and the DMO are not restricted to the more formal bilateral meetings detailed above. Either party may request a meeting at any time to discuss or present a particular issue, market development or innovative idea.

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<sup>11</sup> Contact details for DMO personnel are provided in Annex A.



## 4. Regulation, Propriety and Exchange Membership

67. The DMO is not a regulatory authority. Regulatory responsibility in the United Kingdom for the gilt market falls to the Financial Conduct Authority (FCA) and/or Prudential Regulation Authority (PRA) (and, in other jurisdictions, may fall to other regulatory authorities). All GEMMs must abide by, and are responsible for ensuring compliance with, all legal and regulatory restrictions and obligations applicable to them in all relevant jurisdictions.

68. UK gilts are listed securities, currently listed by the DMO on the London Stock Exchange (LSE) and, as such, are treated as 'on-exchange' products, even though the majority of dealing takes place 'over-the-counter' (i.e. bilaterally over the telephone or via electronic trading platforms not operated or controlled by the LSE).

### 4.1 Supervisory Regulation

69. Those GEMMs that are based in the United Kingdom are expected to be regulated by the FCA and (where applicable) the PRA, and to comply fully with such institutions' regulations and codes of conduct or best practice. Even if not directly regulated by the FCA, they are expected to have FCA approval for their operations in the gilt market through EEA 'passport' arrangements with their home market regulator.

70. Monitoring of an individual GEMM's operations in the gilt market and elsewhere is the responsibility of the FCA and/or PRA (or their EEA equivalents(s)), in terms, for example, of risks undertaken, balance sheet capabilities and trading behaviour. The DMO has an active interest to maintain the 'health' of the market as a whole, in order to maintain a liquid and orderly market in the interests of all investors and future financing costs. In pursuance of their respective objectives, the FCA and the PRA (and/or any other applicable regulator) and the DMO may liaise with each other and exchange any relevant information, although this is only likely in an exceptional situation or where a firm is proposing to undertake new or increased trading activities (e.g. an application to be recognised as either type of GEMM). The FCA and the PRA (and/or any other applicable regulator) and the DMO may also liaise where either party is proposing a (significant) change to the existing market structure or regulation.

### 4.2 Propriety

71. As well as complying with all relevant laws, regulations and codes of conduct, GEMMs and their personnel are required to behave in an appropriate and professional manner in order to uphold the integrity of the gilt market.

### 4.3 Exchange Membership

72. Those GEMMs based in the United Kingdom are expected to be or become members of a Relevant Exchange under the auspices of the FCA, and to abide by the rules and requirements of that exchange as they pertain to the gilt market. GEMM applicants wishing to operate under the terms of any other exchange must first seek jurisdiction approval from the DMO.

73. The complete rules of any Relevant Exchange are expected to be available on the exchange's website, and GEMMs should note that these, along with applicable laws and regulations, will dictate trade reporting obligations regarding any transactions executed, even if transacted over-the-counter. The rules may also prescribe the exchange's own obligations on



market makers with regard to reporting, making prices (and exceptions thereto), delivery of gilts, registration and access to IDB services.

## 5. Entry and Exit Procedures

74. In the interests of promoting fair competition amongst investment banks and other securities firms, the DMO has no fixed notion of the number of primary dealers that it is prepared to recognise at any one time. Barriers to entry as a GEMM are kept as low as is prudent. There remain, however, certain criteria and procedures that must be fulfilled before a (potential) applicant may be considered for recognition (see below). The DMO also recognises that market conditions or an individual firm's circumstances or priorities can change over time, which might lead to that firm requesting, or being requested by the DMO, to resign their status as a GEMM. In such cases, it is important to ensure that the departure of one firm is not detrimental to other GEMMs or the wider market.

### 5.1 Application Process

75. It is recommended that any firm considering applying to become a GEMM first contacts the DMO, in order to discuss its plans and to obtain an official application form – a copy of which is reproduced in Annex C of this document. At this stage, the DMO will offer guidance on the likely suitability of the application and how best the applicant should go about meeting the criteria requested. Once the official form has been completed and submitted, the DMO will request a formal meeting with the applicant firm, involving senior staff from both parties, at which the firm may expand in more detail on its strategies and commitment to the market, and the DMO may seek to clarify any outstanding points and future course of action. DMO representatives will also visit the applicant's premises and dealing room for due diligence purposes in regard to price-making and dealing capacity, as well as to understand risk management procedures and practices.

### 5.2 Essential Criteria for New GEMM Applicants

76. In order to ensure the ongoing integrity and functionality of the gilt market, any firm wishing to be recognised as a GEMM must meet the following criteria:

- demonstrated long-term commitment to the UK government bond market;
- a viable business plan, bringing sustainable value to the gilt market. Firms should look to meet existing market demand and to widen the investor base for gilts where appropriate;
- sufficient balance sheet capability to support activity in the gilt market;
- a credit standing indicative of their long-term viability in the gilt market;
- adequate staffing resources at all times, including trading, sales, research, risk management, settlement and compliance professionals. Key personnel risk should be appropriately managed;
- relevant technological capabilities, including being in a position to settle gilt transactions in CREST;
- written approval or confirmation of non-objection to undertake activity as a GEMM from both a Relevant Exchange and their regulator; and
- a willingness to sign up to all of the DMO's requirements and expectations.

77. Further details on any or all of the above may be obtained from the DMO.

### **5.3 Procedures for 'Going Live'**

78. Assuming that an applicant firm meets the criteria listed above, and is approved by the DMO, the Relevant Exchange and their respective regulator, the DMO's Chief Executive or other member of DMO's senior management team will write to the senior representative of the firm to inform the applicant whether its firm has been successful. At this stage, any approval may still be subject to the DMO receiving written confirmation of agreement from the regulator and from the Relevant Exchange, signed acceptance of the terms and conditions of becoming a new GEMM by the applicant (including any repo or other legal contracts), installation of the necessary technical requirements, and agreement between the DMO and the applicant on a starting date.

79. Once all these procedures have been completed, the DMO will announce the fact to the wider market via its wire services pages and website. This announcement may be made some time in advance of the committed start date, or on the afternoon before, according to the applicant's preference. However, having made such an announcement, the DMO would not expect any firm to delay its start of operations.

### **5.4 Candidature and Probation**

80. All newly-appointed primary dealer firms in the UK will be treated by the DMO as 'candidate' GEMMs 'on probation' for a period of time no longer than one year. The actual terms of a firm's candidature shall remain confidential between the firm and the DMO, but depending on the particular circumstances are likely to involve the attainment of a minimum amount of market share, auction participation, client penetration or similar target, within that specified period of time. At the end of the candidature period, the DMO will inform the firm whether it has been granted official GEMM status.

81. Newly-appointed GEMMs have equal privileges and obligations to existing GEMMs in most aspects of both the primary and secondary gilt market during their period of candidature. However, they will not generally be eligible for immediate consideration as members of a syndicate group, where fees are paid by the UK government to syndicate members.

82. Existing GEMMs may also have a period of 'probation' imposed on them, should their performance as a GEMM deteriorate, either overall or in a particular segment of the market. Performance will be routinely analysed and discussed at the regular bilateral meetings between the DMO and GEMMs.

83. At any time, were the DMO to judge that a firm was no longer meeting one or more of the required criteria and obligations required of GEMMs, or was failing to achieve a satisfactory market share in either the primary or secondary market, it is likely that senior representatives of the GEMM in question would be invited to a meeting to discuss the relevant shortcoming(s) with the DMO, and may be given a formal warning that the shortcomings must be addressed within a set period of time. Senior management of the GEMM will be expected to provide the DMO with a written plan of action to address the issue(s) within this timeframe. If, by the expiry of this deadline, the agreed objective has not been achieved, the DMO will no longer recognise the firm as a GEMM.

84. In these circumstances, and in order not to affect the firm's reputation and chances of succeeding in its objective, the DMO will not publicise the fact that such a probation order has been imposed.

85. Notwithstanding the provisions of paragraph 82, the DMO also reserves the right, with or without notice, to terminate a firm's status as a GEMM for actions by such firm that the DMO, in

its absolute discretion, deems incompatible with such firm's role and responsibilities as a GEMM.

## **5.5 Exit Procedures**

86. As well as failing to meet the required criteria and obligations, there could be other reasons why a firm may no longer wish to continue operating as a GEMM. In all cases, the DMO is concerned to ensure that a firm's departure is carried out in a way that does not cause undue disruption to other market participants.

87. Exiting firms should liaise early on with the DMO to inform it of any intention to resign, and to discuss the orderly unwind of any positions held, agree the timing and date of resignation, and the content of any announcements made to the market by the DMO and/or by the firm involved. Such an announcement is likely to be made on the last day of a trading week, with the resignation effective from the close of business on the same day.

88. An exiting firm will be asked to return any property belonging to the DMO (e.g. any electronic hardware or software) as soon as practicable.

# 6. Other Provisions

## 6.1 Jurisdiction and Governing Law

89. 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 Guidebook or its subject matter or formation including any transaction entered into under the provisions contained therein (Proceedings).

90. 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 and is in addition to any governing law provision in any other agreement.

91. This Guidebook and any notices making amendments to the Guidebook, 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 Contacts and Wire Services Pages

## Contacts

Name	Position	Telephone No.	E-mail
<b>Robert Stheeman</b>	Chief Executive		
<b>Jo Whelan</b>	Deputy Chief Executive*		
<b>Jessica Pulay</b>	Co-Head of Policy and Markets		
<b>Jim Juffs</b>	Chief Operating Officer		
	Markets Team	020 7862 6517	markets@dmo.gov.uk
	Policy Team	020 7862 6532	policy@dmo.gov.uk
	Press Team	020 7862 6532	pressofficer@dmo.gov.uk
	Information Manager	020 7862 6528	recordsmanagementservice@dmo.gov.uk

\*and Co-Head of Policy and Markets

## DMO Wire Services Pages

Information	Thomson Reuters	Bloomberg
<b>Index</b>	DMO/INDEX	DMO <GO>
<b>Announcements</b>	DMO/GILTS1 to 9	DMO1 <GO>
<b>Cash management announcements</b>	DMO/CASH01 to 10	DMO9 <GO>
<b>T-bill tender information</b>	DMO/CASH11 to 15	DMO10 <GO>
<b>Ad-hoc tender information</b>	DMO/CASH16 to 17	DMO11 <GO>
<b>Market notices</b>	DMO/NOTICE01	DMO16 <GO>
<b>Standing &amp; special repos</b>	DMO/REPO1	DMO17 <GO>

# Annex B. GEMM Reporting Requirements

All GEMMs are required to make electronic reports to the DMO, in csv ASCII text or XML format, on the basis described below. Files are submitted via a secure, password-protected SFTP system to the DMO's database(s). Each GEMM is assigned an individual code name and number for use in file submissions, and each submission should include the GEMM reference code, date applicable and type of report identifier (PSN or TRN for daily position and weekly turnover respectively): e.g. GD-NN-TRN-YYYYMMDD.csv. Detailed technical descriptions of reporting requirements are available upon request from a (prospective) GEMM.

## Daily Position Reports

GEMMs are expected to contribute position data for all gilts, including strips.

### Time window

These reports must be sent between 4:45pm and 9:00am the next morning on every business day (occasionally this window may be changed, e.g. early close on Christmas Eve).

### Content

- Each file should begin with line 1 reading:  
DT01,DD-MMM-YY,HH:MM,GEMM (i.e. your firm's unique ID code number).
- Subsequent lines should begin with the identifier PO01, and list all gilts in which the GEMM has a position (short or long) by ISIN code, followed by the actual position (in £000s nominal).
- These are followed by positions in gilt futures contracts, beginning with the identifier PO02, then 2YR/5YR/10YR/30YR FUT, MMMYY, (-)NN, where NN is the number of contracts long or short, using a minus sign where the position is a short (e.g. PO02,10FUT,Dec18,-80).
- Then a list of all unsettled trades over £1 million nominal, up to the date of the report, beginning with the identifier UN01, then the name of the failing counterparty (maximum 19 characters), P or S, ISIN code, due date of settlement (DD-MMM-YYYY) and the size of the transaction (in £000s nominal).
- The report should end with a trailing line, beginning with TR01, followed by the total number of lines contained in the report, including the header and footer.

## Weekly Turnover Reports

GEMMs are expected to contribute turnover data for all gilts, including strips.

### Time window

These reports must be sent by 9:00am every Tuesday morning (or the second business day of a week where there is a Bank Holiday on Monday).

### Content

- Each file should begin with line 1 reading DT01,DD-MMM-YY,GEMM number (the date inserted being that of the Friday of the relevant week).
- Subsequent lines should begin with the identifier TO01, and list all trading in the previous week (Monday-Friday) by ISIN code and counterparty type, showing the total amount of transaction turnover (first by nominal and then by value, i.e. nominal size x dirty price). All values should be counted in £000s.

Counterparty category codes are as follows:

Code	Counterparty type
BOEN	Bank of England (including for Asset Purchase Facility transactions)
BROK	Agency or other broking firms, UK or overseas based
DMOF	UK Debt Management Office (including for auction and option purchases)
GEMM	Other Gilt-edged Market Makers
IDBS	Inter-Dealer Brokers (those acknowledged by the UK DMO)
OSAM	Overseas-based asset manager
OSBK	Overseas-based bank, building society or similar
OSCB	Overseas central bank or other official institution
OSCE	Overseas-based connected entity to the reporting GEMM
OSHF	Overseas-based leveraged money or hedge fund
OSOT	Overseas-based other
OSPI	Overseas-based pension and insurance funds
UKAM	UK-based asset manager
UKBK	UK-based bank, building society or similar
UKCE	UK-based connected entity to the reporting GEMM
UKHF	UK-based leveraged money or hedge fund
UKOT	UK-based other
UKPI	UK-based pension and insurance funds

If applicable, the report should also include one single line entry covering all aggregated turnover in stripped gilts, starting ST01, followed by the total turnover by nominal, followed by total turnover by value. Again these values should be counted in £000s. Please do not include any stripping or re-constitution activity with the central depository.

Finally, the report should end with a trailing line, beginning with TR01, followed by the total number of lines contained in the report, including the header and footer.

Important note: the term 'GEMM' in the position and turnover sections above refers to the gilt dealing activities of individual bank's sterling rates trading team, as agreed with the DMO. Please do not include in turnover reports any repo transactions or other 'trades' that are effectively book transfers. As a general rule, GEMMs should include deals that generate an instruction to CREST and a subsequent transfer of cash from one account to another, and disregard others. Please also exclude any gilts deals transacted by traders who are not directly involved with your firm's gilt market making operation (e.g. Eurosterling credit traders, Treasury desks).



# Annex C. New GEMM Application Form

For the attention of Head of Dealing:

## **APPLICATION TO BE RECOGNISED AS A GILT-EDGED MARKET MAKER (GEMM)**

Name of firm:

Address:

Contact name, title and telephone number:

Date of application:

Anticipated date for business start:

Are you:

- (i) not currently a GEMM, now seeking wholesale or retail GEMM status and/or index-linked specialist (IL GEMM) status?  
If so, please answer all the questions below.
- (ii) already a GEMM, now seeking recognition also as an index-linked specialist?  
If so, please answer questions 1 to 9 below.

Note: to be recognised as a GEMM or IL GEMM by the DMO, your firm must be/become registered as a market maker with an EEA regulated market on which gilts are listed with the consent of the DMO (a Relevant Exchange). This means that your firm's gilt business will be regulated by the Relevant Exchange, as well as an EEA supervisory regulator, and you will be required to adhere to all the Relevant Exchange's rules regarding conduct as a Gilt-edged Market Maker, in all relevant gilts.

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## **Corporate Overview**

1. Please attach a chart showing the (intended) corporate structure of the group containing the proposed (IL) GEMM. What is intended to be the name and corporate status of the (IL) GEMM entity? Will it be separately capitalised? What is (are) the credit rating(s)<sup>12</sup> of this or the immediately superior entity? If the proposed GEMM entity is itself unrated, please explain the legal relationship between the entity and its parent, and any financial support or guarantee arrangements. Please name the lead regulator for the legal entity containing proposed (IL) GEMM and the firm's account manager and contact details at the regulator. Have you discussed this proposal with your regulator?
2. Please describe how the proposed new GEMM or IL GEMM fits into the firm's overall business strategy.

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<sup>12</sup> Please give ratings, including outlooks, from Moody's, S&P, and/or Fitch.

## GEMM Business Plan

3. Please outline the volume and type of gilt, gilt-related or other relevant business that you currently undertake. Please outline the volume and type of business (wholesale and/or retail) that you intend to conduct under your proposed new GEMM or IL GEMM status. Give an indication of your intended counterparty types (e.g. private investor, institutional, real money and leveraged accounts, inter-professional, related companies) and potential to bring new investors to the gilt market; any intended geographic, sectoral or maturity band focus; the intended extent of own account trading; and the intended extent of any related market activities (e.g. repo, futures, swaps, options, other bond markets, etc.). Please also outline the extent of your current participation in the gilt market and provide demonstration of market or customer demand for your firm to provide such a service.

4. Can you commit to fulfilling the expectations and obligations the DMO sets for recognised GEMMs and IL GEMMs? These are:

- to participate actively in DMO's issuance programme, broadly speaking by bidding competitively in all relevant auctions, and achieving a minimum allocation share of at least 2.0% on a six-month rolling average basis, or, in the case of retail GEMMs only, an acceptable level of participation pre-agreed with the DMO. The DMO also envisages that in order to assist the price formation process, each GEMM will bid for a minimum of 5% of each auction averaged over a rolling six-month period;
- to make effective two-way prices on demand in all relevant gilts, in order to provide continuous liquidity; and to achieve a minimum market share of at least 2.0% on a six-month rolling average basis, or, in the case of retail GEMMs only, an acceptable level of participation pre-agreed with the DMO;
- to report information and data to the DMO, and to install and maintain direct telephone and reporting lines, as prescribed; and
- to sign up to the principles and codes of practice outlined in the DMO's "Operational Notice" and "A guide to the roles of the DMO and Primary Dealers (GEMMs) in the UK government bond market", as summarised in "GEMM Criteria, Obligations and Privileges".<sup>13</sup>

5. Please give your firm's exchange membership status. Have you discussed this proposal with the exchange? Please also provide name(s) and contact details of exchange officials involved in your application.

6. Please confirm the proportion of your firm's total (index-linked) gilt business to be booked through the (IL) GEMM, the amount of capital likely to be allocated to the (IL) GEMM business, and the intended management accounting or profit centre policy for the (IL) GEMM.

7. How will the operations relating to your GEMM or IL GEMM activities be organised? Please outline planned staffing, giving details of the experience of your staff and reporting lines, and provide an organisation chart. How do you plan to ensure you can continue to meet your obligations in the event of a departure of key personnel?

8. How do you propose to organise the GEMM's trading book(s)? What are/will be your arrangements for settlement (e.g. direct Euroclear UK & Ireland CREST membership).

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<sup>13</sup> Latest versions are available on the DMO website.

9. Please outline projected business levels for the GEMM or IL GEMM, projected P&L, and any planned investment to support the new business. Please indicate how your firm will review its commitment to the GEMM or IL GEMM business in future years.

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## **Reputation and Compliance**

10. Please outline arrangements in place to control any potential conflicts of interest between business units and ensure the compliance of trading, sales and other personnel with prevailing regulatory standards.

11. Is the applicant or any company in the same group engaged, or does it expect to be engaged, in the United Kingdom or elsewhere in any litigation or legal or tax-related dispute which may have a material effect on the resources or market reputation of the applicant? If so, please give particulars.

12. Has the applicant or any company in the same group failed to meet any obligation within the last 10 years or been censored, disciplined or publicly criticised by, or made the subject of a court order at the instigation of any regulatory authority in the United Kingdom or elsewhere? If so, please give particulars.