**THE UK DEBT MANAGEMENT OFFICE'S REMIT 2017-18: MINUTES OF CONSULTATION MEETINGS WITH GEMMs AND INVESTORS, HELD AT HM TREASURY ON 23 JANUARY 2017.**

The Economic Secretary to the Treasury chaired the annual meetings with representatives of the Gilt-edged Market Makers (GEMMs) and of UK-based gilt investors on 23 January 2017. Officials from HM Treasury and the UK Debt Management Office (DMO) were also present. These meetings provide gilt market participants with the opportunity to inform HM Treasury's decisions regarding the debt financing remit for 2017-18.

The gross financing requirement for 2017-18 is currently projected to be around £134 billion. The DMO's financing remit for 2017-18 will be published alongside Spring Budget 2017 on 8 March 2017.

The Economic Secretary opened both meetings by thanking attendees for their commitment to the gilt market in 2016-17.

The main points arising at the meetings are summarised below.

## GEMMs

### 2016-17

A view was widely expressed that the structure of the remit was appropriate and had been delivered smoothly against a challenging market backdrop, with a larger than expected increase in financing at Autumn Statement 2016 absorbed in an orderly way. In particular, attendees welcomed the package of measures introduced at Budget 2016; more specifically, smaller average short and medium auctions and the increase in the post-auction option facility to 15% were generally well-received.

Attendees generally felt that the unallocated portion of issuance had been a useful part of the financing programme that had permitted greater responsiveness to evolving market conditions, particularly via the use of gilt tenders. There was a discussion about the trade-off between operational flexibility and certainty in the programme.

### 2017-18

Given the above, attendees recommended that the split of issuance between conventional and index-linked gilts, as well as the maturity structure of conventional gilts, should continue broadly unchanged in 2017-18, with any changes only at the margins. Some attendees advocated an increase in long conventional issuance, while others called for increased index-linked issuance reflecting strong demand. In addition, a number of recommendations were made for increasing short conventional (including 3-year) issuance, given the strength of demand and the need to support smooth market functioning at these maturities.

While the majority of attendees supported continuing with smaller short conventional auctions, a number did suggest sizes could be increased and frequency reduced. Some attendees noted in particular that the profile of index-linked gilt syndications in 2016-17 had understandably been somewhat front-loaded in the context of the EU Referendum and recommended a more even profile in 2017-18.

**Investors**

**2016-17**

There was a general feeling that the 2016-17 remit had proceeded smoothly and that both the maturity structure and the split of issuance by method had been broadly appropriate. Attendees valued the additional flexibility that had been provided in the remit and felt that, in general, it had been used effectively, although a few attendees suggested that the use of the gilt tender programme could be enhanced further.

**2017-18**

Given the reaction to the current remit, most attendees suggested that the 2017-18 remit should be structured similarly, in particular regarding the split of issuance by maturity and use of issuance methods. However, there were a number of calls for adjustments at the margins. In particular, given the widely cited strength of demand for long conventional and index-linked gilts, it was felt that the programme could be skewed a little more towards these instruments. Some attendees also suggested that the conventional and index-linked yield curves could be extended by around another five years (e.g. 2072-73 maturity).

A number of other attendees also suggested that, in volatile market conditions, it was important to have a resilient issuance structure that met the needs of a range of investors (overseas investors and domestic banks, as well as the pension and insurance sectors). Supply in the short and medium sectors should, therefore, not be neglected.

A minority of attendees raised the possibility of the launch of new types of gilt instrument with CPI-linked and floating rate gilts most often mentioned. Support was expressed for the Treasury bill programme and the potential for marginally increased Treasury bill issuance and an associated reduction in short gilt issuance was also mentioned.