United Kingdom
Debt
Management
Office

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UNITED KINGDOM

DEBT MANAGEMENT OFFICE

Supplementary Methods for Distributing Gilts: A Consultation Document

17 December 2008

The *United Kingdom* **Debt Management Office** is an Executive Agency of HM Treasury

UK DEBT MANAGEMENT OFFICE

SUPPLEMENTARY METHODS FOR DISTRIBUTING GILTS:
A CONSULTATION DOCUMENT

17 DECEMBER 2008

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A. Introduction

1. Gilt auctions have been the key means by which the Government has implemented its debt management strategy since the joint HM Treasury/Bank of England Review of Debt Management conducted in 1995[1] and have also successfully delivered the Government's gilt financing needs each year since the UK Debt Management Office (DMO) was established in 1998. Gilt auctions continue successfully to deliver the Government's financing needs and the Government remains confident that will be the case going forward. Auctions will remain the Government's preferred means by which to issue gilts.

2. However, in the context of the Government's medium term strategy for gilt issuance[2], it wishes to explore if other distribution methods might be introduced as a supplement to auctions in order to facilitate the primary market distribution process at a time of significantly increased levels of gilt issuance in 2009-10 and beyond. It is in the interests of both the Government and other gilt market participants that the gilt distribution process works efficiently because this will result in lower risk exposures for the DMO's primary dealers and reduced costs for both the Government and the gilt investor base. The Government is, therefore, interested in establishing if there are any barriers in the current system that might prevent the gilt investor base, including the pension and insurance sectors[3], from participating to a greater extent in the primary issuance distribution process. Hence, the Government is seeking views on the need for and design of possible supplementary methods for distribution of gilts that could be introduced into the DMO's 2009-10 financing remit.

3. In order for any supplementary methods for gilt distribution to be introduced into the DMO's 2009-10 financing remit the Government would have to be satisfied that such methods would be consistent with achieving the Government's debt management objective[4] and with the principles of openness, predictability and transparency that underpin debt management policy.

4. Transparency about and predictability in the Government's activities in the gilt market increases the degree of certainty that the market has about

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[1] 'Report of the Debt Management Review', HM Treasury and the Bank of England, July 1995. The Report can be found on the DMO's website at: http://www.dmo.gov.uk/documentview.aspx?docname=remit/report95.pdf&page=Remit/full_details

[2] The Government's medium term strategy for gilt issuance was set out by the then Economic Secretary to the Treasury in the foreword to the Debt and Reserves Management Report (DRMR) 2007-08. It was stated that: "It is likely that strong demand for long-conventional and index-linked gilts will persist in the medium term and continue to influence the shape of the yield curve. Should that be the case, our policy of skewing issuance towards long maturities would continue." The DRMR 2007-08 can be found on HM Treasury's website at: http://www.hm-treasury.gov.uk/debt_reserves_management_report_2007-08.htm

[3] References throughout the consultation document to the pension sector should be taken to include the insurance sector.

[4] The Government's debt management objective is: *"to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy."*

issuance, which puts market participants in a better position to plan their investment strategies and reduces the risk premium in yields to the benefit of the Exchequer. Consistency with these principles is, therefore, of benefit to both the Government and all other gilt market participants. It is also in the interests of both the Government and gilt market participants that the Government is open to hear the views of all participants, considers these views carefully and acts upon them where appropriate. Therefore, the Government welcomes views in response to this consultation from as wide a range of interested parties as possible.

5. In the debt management framework the extent of gilt supply is ultimately a function of the public finance forecasts published in the Budget and the Pre-Budget Report (PBR). The Government expects to face large gilt financing programmes over the next few years and is confident that demand for gilts will meet the projected quanta of gilt financing. The Government believes that underlying investor demand for gilts (particularly for long-dated and index-linked gilts demanded by the pension sector) remains strong. However, that demand does not necessarily emerge in a way that is fully aligned with the timing of issuance that takes place under the DMO's published annual gilt auction calendar.

6. In that context the question naturally arises whether strong underlying demand for long-dated conventional and index-linked gilts could more smoothly be accessed through the introduction of supplementary gilt distribution methods in the context of large financing programmes and potentially difficult market conditions. Hence, the Government sees merit in consulting publicly on the issue of supplementary gilt distribution methods that may have the potential to generate an outcome that is in the best interests of all gilt market participants.

7. Furthermore, the Government considers the gilt market-making system to be an integral component of the overall debt management framework and it is essential that any supplementary gilt distribution method is consistent with the maintenance and good functioning of that system. Therefore, the Government will not introduce any supplementary distribution methods that would be incompatible with the gilt market-making system or the role of the primary dealers as the DMO's main counterparties in conducting debt management operations.

8. Comments on the proposals set out in this consultation paper should be sent by **close of business on Wednesday 28 January 2009 to: Co-Heads of Policy Team, UK Debt Management Office, Eastcheap Court, 11 Philpot Lane, London EC3M 8UD; e-mail: policy@dmo.gsi.gov.uk**. Respondents are requested to submit comments in writing [5]. Market participants may request a meeting with the DMO following the submission of

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[5] You should note that the DMO and HM Treasury are subject to the provisions of the Freedom of Information Act 2000 and consequently information disclosed by us in response to requests for information under the Act could enter the public domain. If you are providing information that is commercially sensitive please mark it as such and we will endeavour not to disclose it to the extent that such non-disclosure is permissible under the Act.

their written response to follow up any of the points or discuss the matter more generally. Please contact Kpakpo Brown if you wish to set up a meeting: **Tel. +44 (0) 20 7862 6576 (mornings) or +44 (0) 20 7862 6603 (afternoons)**.

B. Context for consultation

9. The disruption in financial markets that started in summer 2007 continues to influence the behaviour of financial market participants who face ongoing elevated levels of volatility and a more risk-averse market environment. Gilt market participants are not immune from these influences and face difficulties with pricing assets and, in the case of the Gilt-edged Market Makers (GEMMs), greater balance sheet constraints. Uncertain and volatile market conditions also affect the Government as issuer of debt instruments and increase the 'execution risk'[6] associated particularly with long-dated conventional and index-linked gilt issuance.

10. The Government's planned gilt issuance programme for 2008-09 has a record amount of issuance both in nominal terms and as a proportion of gross domestic product. Illustrative gross financing projections for 2009-10 to 2012-13 published alongside 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). In circumstances where difficult market conditions persist and continue to influence the behaviour of gilt market participants, the Government sees merit in exploring the possibility of introducing supplementary gilt distribution methods into the DMO's financing remit that would support the main auction programme. For example, it may be appropriate to introduce one or more supplementary distribution methods that could be used by the DMO, in conjunction with the GEMMs, to issue long-dated conventional and index-linked gilts in relatively large size.

11. The Government welcomes views on whether supplementary gilt distribution methods may help both the DMO as gilt issuer and gilt investors more effectively to achieve their objectives. In particular, the Government welcomes the views of pension funds and insurance companies (who are key investors in long-dated and index-linked gilts) on possible supplementary distribution methods that could facilitate meeting their demand for long-dated gilts more smoothly and increase their regular participation in the primary distribution process. From the Government's perspective the driver for investigating potential supplementary gilt distribution methods is the overriding requirement to raise large quanta of cash from the sterling capital market in a way that meets the Government's debt management objective and is consistent with the principles on which debt management policy is based. Therefore, the Government welcomes views on supplementary gilt distribution methods that support the auction process and would facilitate raising large financing quanta through gilt issuance in potentially difficult market conditions without constraint imposed (as a result of the distribution method) on its choice of maturities.

12. Section E below sets out some possible supplementary distribution methods on which respondents' views are sought that could be introduced to support the primary distribution process. However, these methods are not

[6] Execution risk is the risk of an uncovered auction (where the amount of bids is smaller than the amount of the gilt on offer at that auction) or one that is covered at an unacceptably deep discount to the prevailing market price.

exhaustive of the possible supplements to gilt auctions that could be introduced into the DMO’s 2009-10 financing remit. The Government is aware that other approaches are used overseas, for example the Dutch State Treasury Agency uses Dutch Direct Auctions (DDA) for initial issues of longer dated benchmark bonds. Therefore, the Government welcomes respondents’ views on other supplementary measures (including, but not limited to, a DDA type model or variant of that model) that in their view may help the Government in meeting the objectives set out in paragraph 3 above and also the needs of gilt investors.

13. 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.

14. Mini-tenders as a financing operation were introduced into the DMO’s remit in Q3 2008-09 and their use was later extended to Q4 2008-09. However, no decision has been taken to introduce mini-tenders on an ongoing basis in the DMO’s financing remit. Therefore, the Government also seeks views on whether mini-tenders should be established for the foreseeable future in the DMO’s remit for use as warranted. The Government also welcomes views on whether any improvements could be made to the approach that the DMO has used for mini-tenders during 2008-09.

C. Timetable

15. The timetable for consultation is intended to inform the setting of the DMO's financing remit for 2009-10 (which is due to be published alongside Budget 2009). The Government's Code of Practice on consultation[7] states that public consultations should normally last for at least twelve weeks. However, the Code also makes provision for shorter periods of consultation where it is necessary "*…to fit into fixed timetables such as the Budget cycle…*".

16. The Government considers that the consultation should fit with the Budgetary timetable so that any decisions to add supplementary gilt distribution methods in 2009-10 can be reflected in the DMO's financing remit for 2009-10. This will provide clarity to gilt market participants and other interested parties at the start of the financial year about the implications of any changes resulting from the consultation for the DMO's planned gilt issuance programme and the split of issuance between instrument types and maturities. An alternative to consultation before Budget 2009 would have been to consult during 2009-10 leaving open the possibility that supplementary distribution methods could be announced later in the year. However, the Government judges that it would be more beneficial both to the design of the gilt issuance programme for 2009-10 and in providing clarity to gilt market participants if any decisions are announced at Budget 2009.

17. Accordingly, any decisions relating to this consultation will be announced in the DMO's 2009-10 debt financing remit, which is set by HM Treasury Ministers and will be published alongside Budget 2009.

[7] The Government's "Code of Practice on Consultation", July 2008, can be found on the website of the Department for Business, Enterprise and Regulatory Reform (BERR) at: www.berr.gov.uk/files/file47158.pdf.

D. Background

18. The Government's debt management objective is:

> *"to minimise, over the long term, the costs of meeting the Government's financing needs, taking into account risk, whilst ensuring that debt management policy is consistent with the aims of monetary policy."*

19. HM Treasury has overall responsibility for meeting the debt management policy objective but has delegated operational responsibility for debt management to its agents. In the case of borrowing in sterling in the wholesale markets this responsibility is delegated to the DMO.

Demand for long conventional and index-linked gilts

20. The Government believes that underlying structural demand for long-dated conventional and index-linked gilts remains strong and is likely to be sustained over the medium term. The nominal and real yield curves in the UK have been consistently inverted at the long end for the better part of a decade suggesting a sustained UK-specific influence on long-term interest rates over and above that exerted by global influences. One important explanation for this is the strong demand from defined benefit pension schemes for long conventional and index-linked gilts in order to match pension liabilities.

21. In accordance with meeting the Government's debt management objective to minimise long term cost subject to risk, and in response to investor demand, debt issuance was skewed towards long conventional and index-linked gilts in 2006-07 and 2007-08. The Government also stated its commitment to continue this skew over the medium term should strong demand for long-dated conventional and index-linked gilts continue to manifest itself in the shape of the real and nominal yield curves[8]. This strategy has been of benefit to the Exchequer in achieving cost effective financing and has had the additional advantage of assisting the pension sector through the supply of assets of the required maturities and types.

22. Since Budget 2008, although the short end of the yield curve has moved in a wide range (reflecting changes in the outlook for interest rates and 'flight to quality' flows amid market disruption), the long end of the nominal curve has remained relatively stable (see Charts 1 and 2 below), and the real yield curve has continued to remain strongly inverted (see Chart 3 below). This suggests that underlying demand at the long end particularly from the pension sector has continued to remain strong.

23. However, demand for long-dated gilts tends to manifest itself in a lumpy and unpredictable manner (for example, the timing of flows relating to portfolio rebalancing and Liability Driven Investment are unpredictable for the Government and do not necessarily align themselves with the timing of gilt

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[8] See footnote 2.

auctions). The pension sector, while representing a significant part of the investor base for long-dated and index-linked gilts, is not always a major participant in the auction process itself. Moreover, some of the market intermediaries have been reducing the size of their balance sheets and in volatile markets have been more averse to carrying bonds on their balance sheets whilst waiting for client demand to emerge. This risk aversion is likely to be greater for bonds whose market value is very sensitive to changes in market yields – i.e. long-dated bonds (both conventional and index-linked).

Chart 1. Nominal gilt yield curves March and December 2008

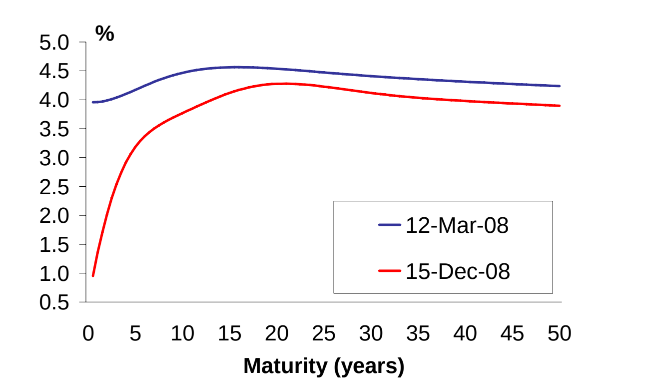


Chart 2. Yields on 4¾% 2010 and 4¾% 2038 March 2008 to December 2008

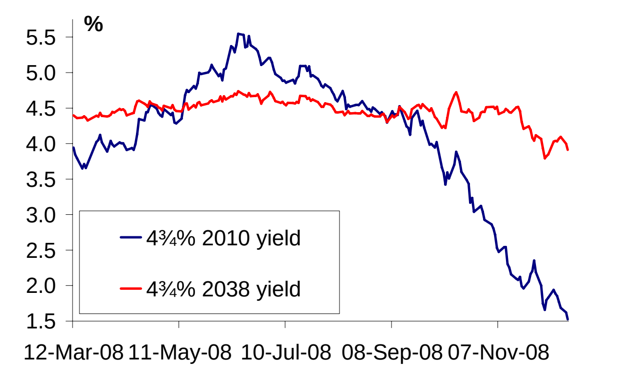
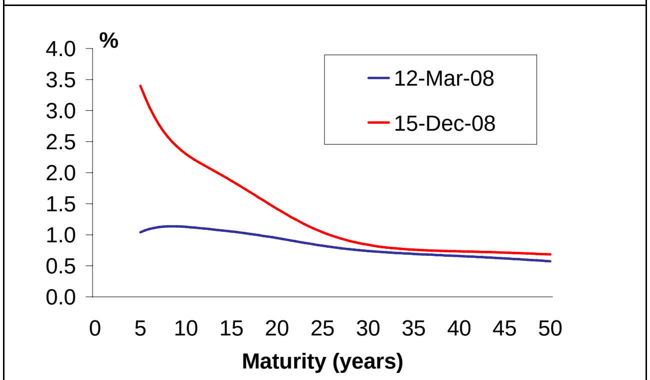


Chart 3. Real gilt yield curves March and December 2008



24. Hence, whilst it is believed that underlying demand for long conventional and index-linked gilts will remain strong over the medium term, the factors cited above increase the 'execution risk' for the DMO in selling bonds into a part of the market that exhibits lower liquidity and depth than the short and medium sectors of the market. A corollary of this is that, in the context of lumpy demand and the heightened difficulty for intermediaries in carrying volatile gilt positions on their balance sheets, the risk of poorly covered auctions (particularly for long-dated and index-linked gilts) is likely to increase.

25. Without any changes to the current distribution method for these types of gilts the Government is likely to be constrained in the extent to which it can skew its issuance to the long end of the nominal and real yield curves, if this was to be its preferred strategy. A further constraint on the extent of any skew to long issuance (without any supplement to gilt auctions) is the overall quantum of financing to be raised in a given financial year, which would

require the DMO to hold relatively small auctions of long bonds at a high frequency. In this context the Government particularly welcomes views from the pension sector and all other investors in long-dated and index-linked gilts on the means by which to supplement gilt distribution methods that would best facilitate the Government more smoothly meeting demand for long-dated and index-linked gilts.

Medium term financing projections

26. At PBR 2008 the Government announced an increase in the gilt sales requirement for 2008-09 of £36.4 billion to £146.4 billion. This overall total includes an increase of £30 billion announced on 14 October in the context of raising finance for the Government's Bank Recapitalisation Fund. The additions to gilt issuance as a result of these revisions were skewed towards short (and medium) maturity gilts. The increase in the skew of issuance towards short maturity conventional gilts was in accordance with the Government's debt management objective but also reflected the operational requirement to raise a significant amount of additional finance in a relatively short period of time[9] and the short-term nature of some of the exceptional items raising the Central Government Net Cash Requirement (CGNCR) in 2008-09.

27. Illustrative gross financing requirements for the years 2009-10 to 2012-13 were published alongside the PBR, which showed that the DMO will likely need to raise a considerably higher amount of finance in each of these years than has been the case in the recent past (see Table 1 below).

Table 1: Illustrative financing projections

£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
CGNCR change since Budget 2008	77	67	57	48
**indicative gross financing requirements*				

28. A key reason why it may be appropriate in the context of increased financing quanta to consider supplementary gilt distribution methods in support of the primary distribution process is that they may facilitate relatively large absolute issuance levels of higher-risk gilts that would allow a different trade-off to be struck between minimising long-term cost and execution risk. Although gilt issuance will be skewed towards short gilts in 2008-09 for the reasons cited above, this need not necessarily be repeated in 2009-10 and beyond.

[9] Auctions for shorter maturity bonds tend to be held in larger size than for longer maturity bonds. This is because the duration risk for the former are less than for the latter, meaning that for any given size the exposure to market movements during the auction process in absolute market value terms – and hence the cost in terms of balance sheet usage – is less for short bonds. As a result there is generally greater liquidity and depth of demand in the shorter sectors of the gilt market.

29. The split of gilt issuance between maturities and types for the financial year is published at the time of the Budget and this consultation process does not pre-empt decisions that will be published at the time of Budget 2009. However, introducing supplementary distribution methods may facilitate issuance of long conventional and index-linked gilts – for example by facilitating issuance in larger size than would be possible via normal auctions of long and index-linked gilts should the cost-risk trade-off favour this approach – thereby potentially giving the Government greater certainty in meeting its debt management objective.

E. Issues on which respondents' views are sought

30. Gilt auctions have been the key means by which the Government implements its debt management strategy since the 1995 Debt Management Review[10]. In the recent challenging market conditions gilt auctions have continued successfully to deliver the Government's financing needs and the Government remains confident that will be the case going forward. Hence, auctions will remain the Government's preferred means by which to issue gilts. However, the Government wishes to explore if other distribution methods might be introduced as a supplement to auctions in order to support the primary market distribution process at a time of significantly increased levels of gilt issuance in 2009-10 and beyond.

31. In particular, the Government is interested in establishing if there are any barriers in the current system that might prevent the gilt investor base, including the pension sector, from participating to a greater extent in the primary distribution process. Therefore, the Government is seeking views on the need for and design of any possible supplementary methods for distribution of gilts that could be introduced into the DMO's 2009-10 financing remit. This section sets out some potential supplementary gilt distribution methods on which the Government welcomes views. It is worth reiterating that any supplementary distribution methods would only be introduced if they:

(i) 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

(ii) would not risk damaging the role of the GEMMs as the DMO's primary gilt market intermediaries.

32. Taking these conditions into account the Government welcomes views on the potential supplementary distribution methods set out below. However, the Government also welcomes views on any other potential supplementary distribution methods that respondents believe could meet both the Government's objectives and the needs of gilt market participants. Section F below sets out some specific questions to guide respondents but the Government also welcomes views on other relevant issues and, therefore, respondents need not limit their answers to the questions listed in Section F.

Mini-tenders

33. Mini-tenders[11], as a financing operation used alongside the scheduled auction calendar, were introduced into the DMO's financing remit in Q3 2008-09 following the announcement of the Government's plans for the Banking Recapitalisation Fund. The use of mini-tenders was subsequently extended to Q4 2008-09 at PBR 2008. However, no commitment has been made to continue their use in 2009-10 or to make them a feature of the DMO's

[10] See footnote 1.
[11] Mini-tenders are operations conducted directly with GEMMs by the DMO's dealing desk.

financing remit in subsequent years that could be activated as warranted. Therefore, the DMO is seeking views on whether or not the use of mini-tenders should be extended beyond financial year 2008-09 and the advantages and disadvantages of doing so.

34. In cases where respondents consider that the use of mini-tenders should continue the Government also welcomes views on whether and, if so, how the design of these operations could be improved. In particular, the DMO welcomes views on: (i) whether steps should be taken to widen market consultation about which gilts are to be offered via mini-tenders and, if so, what those steps should be; and (ii) the extent to which a pre-commitment should be made to issue certain gilts or sizes at up-coming tenders (e.g. how far in advance should a commitment be made).

Syndication

35. Syndication as a method for gilt issuance already exists in the DMO's 2008-09 financing remit but this method of issuance currently lies dormant. The DMO has used syndication only once to launch the new 1¼% Index-linked Treasury Gilt 2055 in September 2005. Its use on that occasion was motivated by the need to ensure appropriate pricing of the gilt was achieved in a context where there was no individually adequate price reference in the sterling fixed-income market around that maturity. Hence, the syndicated offering conducted on that occasion was an exception for the purpose of facilitating effective pricing at the launch of a new gilt.

36. However, the Government wishes to explore the possibility that syndication is used in 2009-10 and subsequent years as part of the wider programme of issuance rather than a one-off exceptional usage to launch a new gilt. The Government would need to be satisfied with a high degree of certainty about the balance of advantage to the Government from using syndication before contemplating usage of that method on a more regular basis. The Government welcomes views on whether it would be appropriate to allow more regular use of syndication as a supplement to auctions in 2009-10 and in subsequent years depending on financing needs. In cases where respondents consider that the use of syndication should take place the Government also welcomes views on the appropriate design for such operations and responses on any of the more detailed questions set out in Section F below. For illustrative purposes, Box 1 below briefly explains how a syndicated bond offering might work.

Other potential supplementary gilt distribution methods

37. The Government recognises that other supplementary gilt distribution methods could potentially be introduced for use in conjunction with the gilt auction programme. However, the alternatives set out below would represent more significant departures from practices that have been used since the 1995 Debt Management Review referred to above.

38. *Other variants on syndication.* Box 1 sets out one approach to syndication through which gilt issuance could take place. However, the Government recognises that other models could also be developed and that other techniques are currently in use elsewhere. For example, the Dutch State Treasury Agency (DSTA) uses the Dutch Direct Auction (DDA) as a means to allow direct bidding and encourage broad participation of end-investors in bond auctions whilst achieving more competitive prices for the DSTA (Box 1 briefly summarises how the DDA is used by the DSTA). If respondents consider that there are alternatives (such as the DDA or variants on it) that could be added to the DMO's financing remit as a supplementary distribution method to auctions they are welcome to submit views and set out the details of the alternative they consider would most readily meet both the Government's objectives and the needs of gilt investors.

39. *Direct placement of gilts with investors.* A further potential supplementary gilt distribution method would be for the DMO to place gilts directly with end-investors. The introduction of such an approach would be a very significant departure from the gilt issuance practices that have been used since the 1995 Debt Management Review. Such an approach has the advantage that it may potentially allow the DMO to match investor demand more precisely at the time it arose than would be possible via other methods described above. However, it is likely that the introduction of such a method would be inconsistent with the principles of transparency, predictability and openness that underpin debt management policy. Therefore, the Government would only consider issuing a small part of the gilt financing programme using this approach if a way could be found to do so that would be consistent with the debt management objective and principles set out in paragraph 3 (for example, this may require a higher level of ex post disclosure than would be typical in such transactions) and would not risk damaging the role of the GEMMs as the DMO's primary gilt market intermediaries. The Government welcomes comments from respondents on whether and, if so, how such a method could be introduced in a way that would be consistent with these principles and with the role of the GEMMs.

Box 1: Summary definition of syndication and overseas examples

Syndication

A syndicated gilt offering would involve the appointment of a group of underwriters (drawn from the Gilt-edged Market Makers (GEMMs)) and formed for the purpose of jointly managing the offering of the gilt. The underwriting role means that the group collectively undertakes to buy all the stock that is on offer should other buyers not be found for the entire issue. The underwriters may also bid on their own behalf. One or more of the underwriters would act as lead manager(s) of the syndicate and would build a book of orders for the gilt. The group of underwriting institutions have responsibility to market the issue and gather orders from investors.

A number of countries (including France, Germany and Italy) use syndication alongside auctions, for example to launch new bonds in large size and in market sectors that do not always demonstrate optimal liquidity and price transparency. Key benefits that have been cited for use of syndication as an issuance method are that it:

(i) encourages investor participation;
(ii) achieves better distribution of bonds;
(iii) facilitates building up a new issue quickly to a reasonable level of liquidity; and
(iv) allows issuance in a timely and efficient manner.

Dutch Direct Auction

The Dutch Direct Auction (DDA) method for issuing Dutch State Loans was introduced by the Dutch Ministry of Finance in June 2003 and has been used since then to launch 5-, 10- and 30-year bonds. The DDA is based on the principle of transparency and the aim of the Dutch State Treasury Agency (DSTA) to create a level playing field for all auction participants. In particular, the DDA was introduced as a means to allow direct bidding and encourage broad participation of end-investors in bond auctions whilst achieving more competitive prices for the DSTA[1]. The DDA is a transparent rules based process where allocation of bonds is decided purely on the price composition of the order book. The DSTA is the sole book-runner in the DDA, which is intended to safeguard the confidentiality of the participating investors. The DDA eliminates the 'winner's curse'[2] because all bids are allocated at a single uniform price.

1. For a comprehensive explanation of the DDA rules please refer to the DSTA website: http://www.dutchstate.nl/uploads/DDA%20Rules%20February%202008%201.pdf
2. The 'winner's curse' would be an outcome where the highest bidder overpaid for the bond on offer. This outcome is prevented in a single price auction because all successful bidders would pay the same price (i.e. the cut-off price determined by the DSTA).

F. Key questions

40. This section sets out a number of detailed questions on which the Government welcomes comments. However, respondents should not be constrained to respond only to these questions if there are other relevant issues that they would like to bring to the Government's attention and particularly if there are other supplementary gilt distribution methods that they consider should be added to the DMO's financing remit. Responses from pension sector respondents are particularly sought at section (a) below.

(a) Interaction between the pension sector and gilt issuance

1. Do pension sector respondents perceive that there are difficulties with acquiring gilts that arise as a result of the auction process?

2. If so, what aspects of the auction process cause these difficulties and what do pension sector respondents view as the appropriate solutions which would facilitate their participation at auctions?

3. Do pension sector respondents believe that a supplementary gilt distribution method or methods would more effectively meet their demand for gilts? If so, is there a particular supplementary gilt distribution method that would most effectively address the concerns of the pension sector?

(b) Potential advantages/disadvantages of introducing supplementary gilt distribution methods into the DMO's financing remit

4. Do respondents see merit in the Government introducing any supplementary gilt distribution methods for use as appropriate taking into account the quantum of financing to be raised in any year?

5. What do respondents regard as the potential draw-backs (if any) for the Government and for gilt investors of introducing a supplementary distribution method or methods?

(c) Preference between distribution methods

6. Do respondents have a preference for any particular supplementary gilt distribution method over other alternatives?

7. For any distribution method preferred by respondents, what do they see as the benefits both for the gilt market and for the Government as issuer of gilts?

8. If respondents have a preference for a particular supplementary distribution method how do they see that method being implemented in practice?

(d) Potential size of gilt issuance using supplementary distribution methods

9. What range of issuance sizes (relative to equivalent auctions) could take place via a supplementary distribution method in a way that would be successful for both the market and the Government as issuer?

10. Would a supplementary distribution method be more likely to allow successful issuance in large size (relative to auctions of equivalent maturity/type)?

(e) Range of instruments capable of successful issuance via supplementary distribution methods

11. Do respondents have views on which types of gilts/maturities it would be most appropriate to issue via supplementary distribution methods (e.g. should usage of supplementary distribution methods be limited to issuance of long-dated conventional and/or index-linked gilts)?

12. Should usage of supplementary distribution methods be limited to new issuance rather than re-openings of existing gilts?

(f) Appropriate degree of pre-commitment by the Government

13. Do respondents have views on the extent to which the Government would need to pre-announce specific operations/a programme of issuance using a supplementary distribution method or methods?

(g) Timing and frequency of usage

14. How frequently do respondents consider that a supplementary distribution method could be used (bearing in mind auctions remain the preferred means for issuance)?

15. The Government will continue to publish an annual auction calendar in the DMO's remit. How should supplementary operations be included in the gilt auction calendar (if at all)?

(h) Scheduling of operations

16. How much flexibility should the DMO have around the scheduling of operations using supplementary distribution methods?

17. Does the appropriate degree of scheduling flexibility depend on the type of supplementary distribution method used? If so, respondents are invited to comment on this point for different types of supplementary operation.

(i) Lead time for implementation

18. What would be the lead times that primary dealers and gilt investors would need before issuance via a supplementary distribution method took place within 2009-10?

(j) Mini-tenders

19. If respondents have a preference for the establishment of mini-tenders for ongoing use in the DMO's remit, what do they see as the key benefits?

20. Do respondents see any improvements that could be made to the approach the DMO has used to mini-tenders during 2008-09 and, if so, what improvements would respondents recommend?

21. If respondents think that use of mini-tenders as a financing operation should be discontinued, what are their reasons?