



United Kingdom  
Debt Management  
Office

## **GEMM Guidebook**

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

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# Executive Summary: Wholesale GEMM criteria, obligations and privileges

The following are the general criteria, obligations and privileges for primary dealers in the UK Sterling government bond market, defined as Gilt-edged Market Makers (GEMMs):

## Essential Criteria for all GEMMs

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

1. Demonstrate a long term commitment to the UK government bond market.
2. Have a viable business plan, bringing added value to the gilt market. Firms should look to meet existing market demand and widen the investor base for gilts where appropriate.
3. Sufficient balance sheet capability to support activity in the gilt market.
4. A credit standing sufficient to ensure 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 the ability to settle gilt transactions in CREST.
7. Written approval from both a Regulated Investment Exchange and their regulator to undertake activity as a GEMM.
8. A willingness to sign up to all of the DMO's requirements and expectations.

## GEMM Obligations

Firms endorsed by the DMO as 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 issuance by sector – conventional and index-linked - on a 6-month rolling average basis.
3. GEMMs are expected to participate in every operation for which they are a designated market maker.

### B. Market making

1. GEMMs are committed to make, on demand and in all conditions, continuous and effective two-way prices to their customers, in all gilts in 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 designated market maker.

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

1. All GEMMs are obliged to provide the DMO with data in a pre-specified format relating to positions and weekly turnover and in relation to the provision of GEMMA end-of-day prices. The DMO also encourages GEMMs to publish real-time prices or accurate mid-market indications via recognised wire services providers and electronic trading platforms.
2. All GEMMs must install and maintain 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 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 the bonds on offer at gilt 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. The DMO will only deal with GEMMs in the gilt-edged secondary market<sup>1</sup>.
2. Only wholesale GEMMs will be 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 have the right to request or participate in DMO standing or special repo operations.

### *C. Other privileges*

1. All GEMMs are invited to participate in annual and quarterly consultation meetings.
2. GEMMs have exclusive access to the services of endorsed Inter Dealer Brokers (IDBs).

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<sup>1</sup> Except that the DMO may also deal with IDBs in the purchase of near-maturity gilts, and its other counterparties (which have signed the relevant documentation) in the operation of its standing repo facility; access to the special repo facility is exclusive to the GEMMs.

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

# 1. Gilt-edged Market Makers

## 1.1 Introduction

1. This Guidebook sets out the UK Debt Management Office's (DMO) relationship with and expectations of its primary dealer firms, Gilt-edged Market Makers (GEMMs). It updates and replaces previous versions of this document, the most recent of which was published in April 2015 and will take effect from 1 April 2016. Readers should note that the DMO has separate arrangements and counterparty relationships for the execution of its cash management operations.

2. Details are believed to be accurate at the time of publication (March 2016), but practices and regulations may change from time to time in the light of changes in official policy and/or market practice. In such circumstances the prevailing version shall be the most recently dated version available on the DMO website at <www.dmo.gov.uk>. Whilst the DMO has endeavoured to ensure the accuracy of this document, it 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. Further details about the DMO's dealing and auction procedures are set out in the DMO's Operational Notice "Official Operations in the Gilt-edged Market", also most recently updated in March 2016 and also available on the DMO website.

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 7357 6517 or e-mail giltdealing@dmo.gsi.gov.uk.

## 1.2 Rationale

5. The DMO continues to believe that liquidity in the gilt market is best maintained by the presence of competing market makers who undertake to make, on demand and in all market conditions, effective two-way prices in those gilts in which they have committed to deal and to support the gilt issuance programme. Continuous liquidity encourages widespread demand for and investment in UK government bonds, which in turn reduces the Government's financing costs.

6. GEMMs may offer services to wholesale and/or retail sectors of the investor base, and specialise in one or both of the following types of gilt: firstly, in conventional gilts; and secondly, inflation index-linked gilts.

7. GEMMs are also invited to be designated as a STRIPS<sup>3</sup> Market Participant, prepared to offer a service in strips to end-investors.

8. All GEMMs must be authorised by the Financial Conduct Authority (FCA), either directly or under the terms of the European Economic Area (EEA) passport, and be registered as a market maker with a Recognised Investment Exchange (RIE).

9. GEMMs must also satisfy certain obligations, described below, in order to be granted and maintain primary dealer status with the DMO.

10. The DMO's operations described in this Guidebook are aimed at advancing the DMO's objectives as issuer of UK government bonds. The DMO is not a regulatory authority.

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<sup>3</sup> Separately Traded Registered Interest and Principal Securities

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 at all times.

### **1.3 Definition of a Primary Dealer**

11. For the purposes of this document, and for the discharge of primary dealer obligations and conferral of privileges in the UK government bond market, the DMO defines a Gilt-edged Market Maker (GEMM) as a bank or securities firm that has committed to the requirements of the DMO and an RIE, and been formally recognised as such by the parties involved.

12. A distinction is made between wholesale and retail GEMMs in terms of title, privileges and obligations, according to that GEMM's target investor base. Unless otherwise identified, all references to 'GEMM' in this document refer to both categories of primary dealer in the UK.

13. As the requirements apply to sterling-denominated UK government bonds only, 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 equivalency 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.

### **1.4 Primary Dealer Obligations and Privileges**

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

14. Firms endorsed by the DMO as GEMMs agree to meet a number of obligations on a continuous basis. These obligations are to ensure that primary dealers 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 GEMM firms to be aware of these obligations and to ensure that they are adhered to in a robust and proper manner. The DMO will seek periodic written assurances from GEMM firms that appropriate systems and procedures are in place to meet these obligations. The obligations are as follows:

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

15. GEMMs are the only institutions 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 to participate in annual and quarterly consultation meetings and all are expected to participate in a meaningful way in the auction process itself.

16. 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, over a rolling 6-month period, each wholesale GEMM should aim to purchase at least 2.0% of such amount issued. 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, over a rolling 6-month period, each wholesale GEMM's bids would be the equivalent of at least 5.0% of the amounts issued overall.



*ii) Market making*

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

18. GEMMs have no obligation to quote prices to other GEMMs, and price provision to Inter Dealer Brokers (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.

19. 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 6-month rolling average basis. Turnover expectations for retail GEMMs will be agreed on a bilateral basis, but tailored to reflect the smaller average size volumes traded by such GEMMs. GEMM firms 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*

20. 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, and in relation to the provision of Gilt-edged Market Makers Association (GEMMA) end-of-day gilt reference prices. The DMO also encourages GEMMs to provide real-time prices or accurate mid-market indications to recognised wire services providers and electronic trading platforms. The DMO publishes end-of-day closing prices and aggregated turnover data on its website. It also collates intra-day composite gilt reference prices on a real-time basis by averaging feeds from individual GEMM pages, and makes these available to the market on its wire services pages. Although end-of-day GEMMA and intra-day composite prices are made available across the DMO's pages, responsibility for the quality of the underlying contributed prices lies with each GEMM.

21. All GEMMs and recognised IDBs must install and maintain designated IT (including Bloomberg) and telecommunications links with the DMO. These are used by GEMMs for price, 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.

22. 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 with due consideration to any market consultation exercises.

**B. GEMM privileges**

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

*i) Auction bidding*

24. GEMMs are the only institutions eligible to submit competitive bids directly to the DMO. This means that all other market participants wishing to bid at a gilt auction must route their order(s) through a GEMM. Any client order submitted by a GEMM must be identified as such.

25. GEMMs are each entitled to a share of a non-competitive allowance of 15% of the total amount of the bonds on offer at a gilt auction. If applied for, these bonds 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 auctions.

*ii) Preferred counterparty status*

26. As with the auction process, the DMO will only deal with GEMMs in the gilt secondary market. The DMO is active in the secondary market in a number of areas –executing transactions on behalf of members of the public<sup>4</sup> or various government funds managed by the CRND<sup>5</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.

27. In selecting Lead and Co-Lead managers for syndicated issues of gilts, the DMO will normally only consider wholesale GEMMs<sup>6</sup> for membership of the lead manager group.

28. 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, the right to request or participate in standing or special repo operations from the DMO.

*iii) Other privileges*

29. As stated above, GEMMs have exclusive trading and viewing access to the services of endorsed IDBs, which enables them to unwind or acquire positions in gilts or gilt-related products anonymously with their peers.

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

**C. Rules of the Exchange and regulatory authorities**

31. The DMO's obligations and privileges operate in parallel with any relevant RIE's rulebook, which may set out its own requirements for market makers and IDBs as members of that exchange. GEMMs (firms and individuals) will also be subject to regulatory requirements in respect of their dealing and trading functions and it is their responsibility to abide by these regulations at all times.

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<sup>4</sup> Members of the DMO's Approved Group of Investors.

<sup>5</sup> Commissioners for the Reduction of the National Debt.

<sup>6</sup> Excluding GEMMs on probation.

## 2. The Primary Market

### 2.1 Policy and the Financing Remit

32. Since 1995<sup>7</sup>, auctions have constituted the primary means of issuance for both conventional and index-linked gilts, as the government regards such operations as the most transparent and most cost-effective way of issuing gilts over the long term. However, the DMO may issue gilts via other means (e.g. a syndicated offering or gilt tender).

33. The DMO remit is usually published alongside the Budget, in the Debt Management Report (DMR), every spring, which is released after the Chancellor of the Exchequer has delivered the Budget speech. An indicative annual calendar of gilt auctions is also published as part of the DMO's Remit announcement.

34. The DMO's remit is set by HM Treasury following consultation with the DMO, primary dealers, investors and other market participants. All GEMMs are invited to send a representative to annual meetings, chaired by the responsible Minister, in order to state their recommendations on the content of the forthcoming year's remit, the perceived needs and demands of the market, and any other topical issues of the time.

35. The financing remit for each financial year will indicate the target amounts of cash to be raised in conventional gilts and index-linked gilts, and within conventional gilts the amounts to be raised in each maturity band<sup>8</sup>, as well as the planned split by method of issue. Further operational details (such as the planned dates for auctions) are published in a parallel remit announcement by the DMO.

36. The issuance programme may be varied during the year in the light of any substantial changes to any of the following: (a) the Central Government Net Cash Requirement (CGNCR), (b) the level and/or shape of the yield curve, market expectations of future interest and/or inflation rates, (c) market volatility, or (d) any other criteria specified in the relevant annual remit. In practice, any variations are likely to occur at the time of publication of the outturn of the previous year's CGNCR in late April, and/or at the time of the in-year revision to the public finance forecasts, usually in November or December. Any revisions will be announced by the DMO.

37. Decisions over the timing of the Budget and other announcements which revise public finance forecasts may result in the re-scheduling of previously-announced gilt operations, given the market sensitivity of these events.

### 2.2 Prior Notice of Gilt Auctions

38. The DMO hosts quarterly consultation meetings with representatives of GEMMs and end-investors. These meetings are normally held towards the middle of March, May, August and November, and are intended to inform the DMO of the market's preferences for the issuance of individual gilts in forthcoming quarters (April-June, July-September, October-December and January-March), within the constraints of the published remit. All GEMMs are invited, and expected, to send a representative to these meetings, and will be asked to contribute their views in all sectors where they have primary dealer status. The list of primary dealer attendees is co-ordinated by the secretary to the Chairman of the GEMMA. Summary minutes of these meetings are published on the DMO's wire services and web pages as soon as practicable the following day.

<sup>7</sup> See: [www.dmo.gov.uk/documentview.aspx?docname=remit/report95.pdf](http://www.dmo.gov.uk/documentview.aspx?docname=remit/report95.pdf).

<sup>8</sup> The DMO defines maturity bands as follows: shorts 1-7 years to maturity, mediums 7-15 years, and longs 15+ years.

39. On a quarterly basis, the DMO announces its plans for auctions to be held over the following one to four months, typically at 3:30pm on the last business days of March, May, August and November. These announcements will normally indicate the identity of the individual existing gilt(s) or, if relevant, the launch of any new one(s).

40. At 3:30pm on the Tuesday in the week preceding a scheduled auction, the DMO will publish the final terms and conditions of an auction, including the nominal amount of the gilt on offer, ISIN and SEDOL codes, and, where the gilt is a new one, the coupon.

41. As any of these announcements may be market sensitive, and in order to protect price providers, the DMO may remind gilt IDBs briefly to suspend any 'live' dealing prices posted on their screens until after the announcement has been made, allowing sufficient time for the information to be disseminated to the market.

42. As a general rule, the DMO will tailor the sizes of individual auctions to take account of the amount of risk being offered to the market in each operation. This means that auctions of shorter-dated gilts will generally be for larger cash sizes than those for longer-dated gilts, although there is no formulaic correlation. In determining the size of individual auctions, the DMO may also take into account specific market events (e.g. index changes, redemptions and coupon flows), perceived levels of demand and any portfolio considerations of its own.

43. Prior to each auction, the DMO will e-mail each primary dealer firm to inform each GEMM of its individual reporting requirements. All GEMMs are required to submit details of auction day trading in the relevant gilt, with all counterparty types, by e-mail on the appropriate form. Reports must be received by the DMO by 8:00am on the morning after the auction.

## **2.3 Auction Mechanics**

44. With the exception of small retail bids from members of the DMO's Approved Group scheme<sup>9</sup>, all bids at gilt auctions must be submitted by, or through, a GEMM, via the Bloomberg Auction System (BAS), or, in emergency circumstances only, by electronic mail or by direct telephone line to the DMO's dealing desk, whichever is specified by the DMO. All other investors wishing to participate in the auction process must submit their bid to a GEMM of their choosing, which is in turn obliged to submit that bid to the DMO, via BAS, without charge or discount.

45. Bids may be submitted at any time from the opening of the bidding window (usually 8:00am on the morning of an auction), until the published deadline (usually 10:30am), after which no further bids can be accepted. BAS will automatically generate banner messages to all bidders, warning them that the deadline is approaching, and the GEMMs' bid input screens show a countdown, utilising Bloomberg's in-built clock, which shall determine the cut-off time.

46. Enabled GEMM dealers may submit, cancel and/or amend as many bids as they wish before the deadline when utilising BAS. The bid input screen displays the identity of the gilt being auctioned, the size on offer, each GEMM's non-competitive bid allowance and the clock, which counts down to the bidding deadline. The same screen allows dealers to input new bids (size and price), which will then generate the equivalent yield, and, once submitted, will respond with status (e.g. "submitted"), and time of submission (HH:MM:SS). Dealers must also populate the 'position' field, which formally notifies the DMO of the GEMM's current position in the gilt being sold. Initial bids may be cancelled at any time before the bidding deadline, new ones may be added, or existing ones may be amended, either by re-inputting individual bid prices, or by populating the 'price change' field, which will then update all selected bids by the desired penny

<sup>9</sup> The Approved Group of Investors is a group of investors who have satisfied the evidentiary requirements of the DMO regarding the identity of any applicant for gilts or of any person for whom an applicant is acting as agent. Requests to be admitted to the Approved Group can be made at any time but failure to provide satisfactory evidence of identity will result in an applicant being refused admission to the Approved Group.

price change (e.g. input 1 to move prices up by 0.01, or -0.2 to move prices down by 0.002). Other functions within BAS allow bidders to view total amounts bid for by themselves and other colleagues at their firm, on an aggregate and individual basis.

47. Unless otherwise notified, each competitive bid must be for one amount and at one clean price, expressed as a multiple of 0.001 of £1 (i.e. to three decimal places and including the 'big figure' – e.g. 102.345), for at least £1 million nominal and round multiples thereof. This limitation applies to individual client bids as well as to GEMMs' own account bids; hence GEMMs should round client bids in fractions of £1 million to the nearest whole number, by taking the balance on their own account.

48. Dealers bidding on behalf of clients, or other non-GEMM dealers in their firm, must enter the applicable 3-letter client code in the relevant field on the bid input screen. If the system recognises the code, it will return a longer version of the client name for verification purposes.

49. Client codes are allocated and maintained by the DMO and any client intending to participate in the auction should apply directly to the DMO dealing desk for allocation of a code. Applications may be made by e-mail, Bloomberg message or headed letter. Such codes are unique, and will be retained for use in future auctions. However, the assignment of such a code should not be taken as a signal that the DMO has verified the legitimacy of the client institution, and GEMMs are expected to conduct their own due diligence validations. GEMMs may not apply to the DMO on behalf of a client, but the latter is expected to reveal its code when submitting a bid to a GEMM. New applications for codes should be made to the DMO by the close of business on the evening before any auction, otherwise GEMMs will be expected to submit bids from non-registered clients under the code 'NEW' or under their own account, which may or may not, at the DMO's discretion, affect the GEMM's own account allowance. In either case, GEMMs should contact DMO dealers immediately to identify the new bidder, and its bids.

50. Client institutions that are part of the same parent organisation as a GEMM firm (e.g. a bank's Treasury operation) may also apply for the assignment of a client code, but in such cases the DMO will seek additional assurances around the independence and segregation of the two entities.

51. Primary dealers are also offered a non-competitive allowance at each conventional or index-linked gilt auction. The DMO sets aside a total of 15% of the nominal amount on offer to provide the GEMM community with the assurance of a guaranteed minimum allocation, in order that they are more willing to carry short positions into the auction itself.

52. In conventional gilt auctions, the 15% allowance is split pro-rata amongst all wholesale GEMMs, while for index-linked gilt auctions, individual GEMM shares of the 15% allowance are determined by reference to that GEMM's successful competitive bidding results in the three previous index-linked auctions. In calculating individual allowances here, the DMO makes no adjustment for the price, risk or duration weighting of the different gilts.

53. Individual allowances may be communicated to GEMM dealers by DMO dealers, during the week preceding each auction. The maximum allowance – calculated to the nearest £100,000 nominal – will also appear on each GEMM's BAS bid input screen, after the bidding window has opened. Note that non-competitive allowances are not automatic – GEMMs must request an allocation each time, in one single non-competitive bid, for a size that is a multiple of £100,000, up to the stated maximum amount. Non-competitive bids are filled at the average accepted price in conventional gilt auctions, and at the strike price in index-linked gilt auctions.

54. Further details on all aspects of BAS can be found in the user guide "Bloomberg Auction System – User guide for gilt primary market operations conducted by the UK Debt Management



Office”, issued to all GEMMs in April 2015, and available to primary dealers upon request to the DMO.

55. In the case of one or more GEMMs, or the DMO itself, being unable to access BAS for technology-failure reasons, the DMO may, at its discretion, permit the submission of bids by GEMMs by electronic mail or by direct telephone line as a back-up measure. In these circumstances, GEMMs are likely to be limited in the maximum number of bids that they may submit in the final 10 minutes of bidding. GEMM dealers should inform the DMO dealing desk immediately upon becoming aware that they are not able to access BAS. In the case of isolated failures, GEMMs must be aware that the DMO’s input of bids into BAS on their behalf will be on a ‘best endeavours’ basis, and that no bids may be input, cancelled or amended after the precise auction deadline (e.g. 10:30am). In the event that the DMO itself is unable to access BAS, or a widespread market failure, the DMO may announce that all bids should be submitted by electronic mail, direct telephone line or alternative arrangements instead of BAS, along with any other emergency measures (e.g. limits on bid numbers). In such (extreme) circumstances, the publication of auction results is likely to take longer than normal. Alternatively, the DMO may announce a postponement of the auction until later the same day, or some future date.

56. After the designated bidding deadline has passed, the DMO will download the complete bid set from BAS into its own allocation systems, which will then calculate the result and individual GEMM allocations. The bid set and results are then checked by DMO staff, prior to release, to guard against errors and anomalies, and to determine whether any GEMM or customer institution is likely to exceed the maximum allocation guidelines set down by the DMO (see below), in order to reduce the potential for squeezes in the aftermath of any auction. The information will be treated as confidential by the DMO and not released to any third party.

57. In processing auction results, the DMO may, at its own discretion, decline to allot some or all of the gilts bid for to an individual institution, if it is deemed likely that a large allocation may lead to post-auction market distortion. In conventional auctions, the maximum permitted allocation for any single bidding institution is set at 25% of the nominal amount on offer, and in index-linked auctions the figure is 40%. In the case of GEMMs, the DMO will take account of any net short position already accumulated in the stock, thus raising their potential maximum allowance proportionally. Note that the term ‘GEMM’ in this case applies to the group as a whole, with the exception of any segregated entities. The DMO also retains the right to refuse or amend bids in the case of any other error or irregularity in the bidding process, and any bid is not legally deemed to be accepted unless/until the auction results are published.

58. Should there be a need to scale back any allocations, the DMO will discard the lowest competitive bid(s) first, up to the relevant cut-off point. Non-competitive bids and bids on behalf of unrelated clients will be unaffected by this measure. The maximum allocation limit for client bidders is absolute, and any client bidding for more than 25%/40% (see above) may be scaled back by the same method (i.e. lowest priced successful bids first) and, if necessary on a pro-rata basis per GEMM, where multiple bids are at the same price. GEMM personnel are expected to inform clients of this likelihood if they suspect that the client is bidding for total sizes in excess of these limits.

59. Allocations at the lowest accepted price are scaled pro rata, rounded down to the nearest 0.01%, and all such allocations are in multiples of £1,000 nominal of gilts. Any small rounding residual amount is retained by the DMO on its own portfolio.

60. Results of the auction will be released on the DMO’s wire services pages, simultaneously to all market participants, as soon as all the necessary calculations, allocations and checks have been performed internally by the DMO. Immediately prior to release, the DMO’s dealers will inform IDBs that results are ready for publication and request that they turn all current live

prices on their screens 'subject to confirmation'. This is standard practice, and no indication of the outcome of the auction is given to IDBs. The results announcement itself (see below) will contain sufficient information for GEMMs to be able to calculate their own individual successful allocations, but GEMM dealers may also contact the DMO's dealing desk for confirmation.

61. Gilt auctions will normally settle on the following business day, in accordance with the T+1 convention in the gilt market. For auction settlement purposes, accrued interest is rounded to 6 decimal places per £100 nominal.

62. All GEMMs are expected to match the DMO's settlement instructions in Euroclear UK & Ireland's CREST system, and to meet their commitments on the day and in good time. In order to settle auction allocations, GEMMs should instruct one single trade, with a nominal size equivalent to their entire auction allocation, including non-competitive bids, and match the DMO's consideration amount to the nearest penny where possible. The input price is not essential, but will equate to the weighted average price of all the successful bids submitted by the individual GEMM.

63. 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).

64. The procedures described above apply commonly to all conventional and index-linked gilt auctions conducted by the DMO. The following paragraphs identify areas where procedures and regulations may differ from one type of auction to another.

## **2.4 Conventional Gilt Auction Specifics**

65. Conventional gilt auctions are held on a bid price basis (i.e. successful bidders pay the price that they bid), with non-competitive bids allocated at the weighted average accepted price.

66. Direct bidding is open to all primary dealers, wholesale or retail, recognised as a GEMM in conventional gilts.

67. The published results of a conventional gilt auction will include details of the highest, average and lowest accepted prices (with the pro rata scaling rate at the lowest accepted price); the gross redemption yields equivalent to these prices; the total nominal value of accepted non-competitive bids (split between GEMMs and non-GEMMs); the total value of all bids received, including those rejected in whole or in part on account of price; and the ratio of this total to the amount on offer (the 'cover').

## **2.5 Index-linked Gilt Auction Specifics**

68. Index-linked gilt auctions are held on a single price basis (i.e. all successful bidders pay the lowest accepted price), with non-competitive bids also allocated at this lowest accepted price.

69. Direct bidding is open to those primary dealers, wholesale or retail, recognised as an index-linked GEMM.

70. The published results of an index-linked gilt auction will include details of the strike price (with the pro rata scaling rate at this lowest accepted price); the real yield equivalent to that price (and any inflation assumption contained therein); the total nominal value of accepted non-competitive bids (split between GEMMs and non-GEMMs); the total value of all bids received,

including those rejected in whole or in part on account of price; and the ratio of this total to the amount on offer (the 'cover').

## **2.6 Uncovered Auctions**

71. The DMO reserves the right not to allot all of the gilts on offer at a conventional or index-linked gilt auction, although it would consider this only in exceptional circumstances, where it judges bids to be at an unacceptably deep discount to the prevailing market level. This is particularly, but not exclusively, pertinent to the index-linked sector, where the nature of the single price auction format means that an entire auction can potentially be allocated at the same low price, rather than the impact of individual outlier bids. In some circumstances, this could even mean that allocating a larger nominal amount of gilts would lead to a lower amount of revenue being raised. In such cases, the DMO is likely to reject the lower bids. In other circumstances, an auction may still not be 100% covered, even if all bids submitted are accepted.

72. Where a regular conventional or index-linked auction is uncovered, for whatever reason, it is likely that the remaining gilts will still be created from the National Loans Fund (NLF), although the DMO does have the option to cancel the residual amount immediately. The unsold balance will then be held by the DMO on an official portfolio for a certain period of 'purdah' in order to allow market conditions to stabilise. The DMO may then offer the balance for re-sale at a time of its choosing, but no sooner than three business days after the original auction. These arrangements will be detailed in a screen announcement to be published shortly after the results of an uncovered auction. Depending upon the amount of gilts involved, the re-sale of the unsold balance may be via a tender (see below).

## **2.7 Post Auction Option Facility**

73. Since 1 June 2009, all gilt auctions (both conventional and index-linked) have included an additional Post Auction Option Facility (PAOF), through which all successful direct bidders, GEMMs and clients, are offered the right to purchase up to an additional percentage (15% from 1 April 2016) of the gilt they were allotted at the relevant auction, at the published average accepted price in multiple price format auctions, or at the published strike price in auctions of uniform price format.

74. Following each auction, the DMO calculates each GEMM's option entitlement in terms of a nominal amount of gilts, based on that GEMM's successful bids (non-competitive, own account and/or those on behalf of clients) and inputs this allowance into BAS, which will appear on dealers' screens once the take-up window is opened.

75. The option take-up window is currently open from 12:00 noon until 2:00pm (London time) on the day of the auction and GEMMs have until the cut-off time to inform the DMO electronically via BAS whether they wish to take-up some or all of their entitlement, by inputting the size required (up to the individual permitted maximum) in the single non-competitive box of their bid input screens. Dealers may cancel or amend these 'bids' as they wish, and only those 'live' at the cut-off time shall be counted.

76. GEMMs are under an obligation to pass on the right to the option to any client bidder(s) that submitted successful bids in the auction through their firm, and, as a result, dealers should factor client take-up into the single amount of the option that they exercise in the take-up window. However, in the event that a client does not wish to take up its allowance, the GEMM may opt to take up that client's allowance.

77. After the designated take-up deadline has passed, the DMO calculates the total take-up of the option facility across all GEMMs, and publishes this total as soon as practicable, on its



wire services pages and website. This announcement also contains the revised total nominal amount in issue of the relevant gilt.

78. The DMO only creates an additional amount of the gilt equal to the nominal amount of options taken up.

79. Settlement will normally take place on the following business day, in line with the T+1 convention in gilts. GEMMs taking up option entitlements should book a single purchase trade as a normal secondary market transaction with the DMO, at the option strike price and separate from any instructions relating to the auction, and, where relevant, sales ticket(s) to clients who have exercised their options to purchase gilts, at the same price.

80. The PAOF will not be offered in the event that the auction itself is uncovered. For the avoidance of doubt, 'uncovered' in this respect means cases where either (i) insufficient bids were received at the auction relative to the amount on offer, or (ii) where the DMO has exercised its discretion not to accept bids that it judged to have been at an unacceptably deep discount to the prevalent market level (see above).

## **2.8 Syndication**

81. Although auctions constitute the primary means of gilt issuance, the annual debt management remit (contained in the Debt Management Report) may include provision for syndicated issues of debt, including the target maturity bands or sector(s) of the market, expected size and number of operations in such a programme.

82. The DMO will give sufficient notice of its intentions regarding syndicated offerings to allow the market to be suitably prepared for the event(s), but the degree of precision announced on the type (conventional or index-linked), maturity/maturity area or timing of each sale will vary according to the proximity of the intended syndication, to allow the DMO to react to market demand at the time.

83. Market feedback on syndication candidate bonds will be sought at quarterly consultation meetings with GEMMs and investors, and bilaterally on an ongoing basis. Around two weeks in advance of an intended syndication, the DMO will announce further details relating to the operation, on its wire services pages and subsequently on its website.

84. In allocating lead management and other roles in syndicated issues under such a programme, the DMO will offer all relevant GEMMs the opportunity to present their advice and credentials on a regular, fair and equal basis. Factors such as: active participation in the primary market (including regular bidding participation in auctions), as well as the secondary market, expertise in the relevant market sector, timely provision of good quality market intelligence and responses to DMO requests for feedback and consultation exercises will be taken into account in the final selection decision, which shall be merit-based, although no specific targets, selection criteria or league tables will be published. However, the DMO will operate the selection process within a general design that, where possible, allows for most wholesale GEMMs to have the opportunity to act as a lead manager in a syndicate during the life of the programme, subject to performance. The aforementioned factors are those most likely to lead to a GEMM being considered for a lead management role.

85. The DMO would also not normally expect to appoint any non-GEMM institution to any role in the managerial group. Equally, newly-appointed GEMMs (see Chapter 9) and/or retail GEMMs will not normally be eligible to participate in such a group.

86. Lead managers are likely to be formally appointed and announced to the market around a week in advance of the intended issue date. Individual roles within the lead management group may be assigned nearer to the time of sale.

87. The precise structure of the group and method of sale may vary from issue to issue. The DMO will take such decisions based on its own policy preferences at the time, taking into account advice from GEMMs on prevalent best practices and their recommendations for the particular issue.

88. The DMO will endeavour, via screen and website announcements, press notices and/or communiqués from lead managers, to keep all market participants informed of developments in the syndication process at all key stages of the operation.

89. All GEMM participants in a syndicated offer – lead managers and co-lead managers – are expected to operate with propriety at all stages, including the protection of any deal-sensitive information that syndicate desk or other privileged personnel may be in possession of. Management and compliance departments at GEMM firms therefore have a duty to ensure that appropriate compliance and ‘Chinese-wall’ procedures are in place. The DMO reserves the right to request related trading and turnover data from any involved parties for analytical purposes, but responsibility for compliance monitoring of a GEMM’s activity remains with the firm itself and its regulator.

## **2.9 Gilt tenders**

90. The conventional and index-linked gilt auction programme in any year may be supplemented between auctions by official sales of gilts by the DMO via gilt tenders. Gilt tenders will typically be for existing gilts and for a lower size (in cash terms) than conventional and index-linked gilt auctions of equivalent maturity. The DMO’s annual remit may specify any plans for sales by tender, and may also set out any rules concerning notice periods, amounts and/or maturities of such operations.

91. Demand for gilt tenders (including views on preferred timing and/or choice of gilt) may be communicated to the DMO via the quarterly consultation process or at other times during the year. Advance notice will be given of the specific details of tenders via (an) announcement(s) that will detail the identity of the gilt(s) involved; the intended size of the operation; any applicable limitations on participation (e.g. minimum acceptable prices, number of bids permissible, and allocation limits); and other operational details. Tenders in index-linked gilts will normally be held on a single price basis, and those in conventional gilts may be either single price or multiple price format, with bids at the striking/clearing price subject to the usual pro rata scaling. There are no non-competitive or post auction option facilities in respect of mini-tenders.

92. GEMMs will be invited to submit bids, via BAS, either for their own account or on behalf of clients, in the same denominations as specified for auctions, within the timetable outlined in the screen announcement. Results of the operation, including new amounts outstanding, will be published as soon as possible, with settlement and, where appropriate, creation of the relevant gilt(s) taking place on the following business day. The DMO expects all counterparties to be able to honour their commitments on that day.

93. The DMO may also use the tender process described here for other larger-scale market operations, such as the subsequent sale of the unsold portion of gilts following an uncovered auction, or the acquisition or disposal of gilts on behalf of other government funds, under the management of the Commissioners for the Reduction of the National Debt (CRND) or others. These may be sales or purchases.

## 3. The Secondary Market

### 3.1 Market Making

94. GEMMs are expected to make effective two-way prices on demand to any of their clients, at all times and in any conditions, in all gilts in which they have been recognised as a primary dealer. The reason for this obligation is to preserve the depth and liquidity of the market and to maintain investors' confidence in the ability to buy or sell gilts at any time, hence encouraging wider participation and greater turnover, and ultimately leading to lower borrowing costs for the UK Government.

95. In practice, the DMO only expects its primary dealers to make prices and execute transactions with those customers which have already previously been subjected to due diligence and other anti-money laundering enquiries by the firm involved. In addition, there is no requirement that a GEMM should be obliged to make a price to any other recognised GEMM, to an IDB, or to an Agency Broker, although the GEMM may choose to do so.

96. The DMO regards "effective two-way prices" as a bid and offer made in regular market size with a reasonable spread between the two. 'Reasonable' is not strictly defined here in terms of pence or basis points, as the DMO recognises that prevalent spreads may change in the short or long term. In the event of any comment from an end-investor, the DMO would consider these factors in determining whether a GEMM was not fulfilling this key obligation for a primary dealer. Similarly, any customer requesting a price in exceptional size (large or small) might expect the price quoted to be adjusted accordingly, to take account of the disproportionate risks or settlement costs involved. If a customer requests a non-standard settlement date, the price(s) may also be adjusted accordingly.

97. 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. Whether or not a GEMM is prepared to deal outside of these hours is that GEMM's own business decision. In addition, the DMO deems it reasonable for market-making obligations to be suspended temporarily (for one to two minutes) over the release of key economic news or data from the UK, US or Eurozone.

### 3.2 Inter-dealer Brokers (IDBs)

98. IDB firms operate in the gilt market as intermediaries between the GEMMs, and are not permitted to offer their services outside of this community, thus providing an 'inner core' to the market, where GEMMs may trade with each other on an anonymous basis.

99. IDBs must register as such with an RIE that lists UK Gilts, such as the London Stock Exchange (LSE), and agree to abide by any rules relating to IDBs, before the DMO will consider 'endorsing' them. For example, under the rules of the LSE, IDBs must provide a service description to all GEMMs and lodge a copy with both the Exchange and the DMO. The service description covers all aspects of how the IDB operates its services. IDBs are not permitted to take principal positions on their own account, except where they are dealing on a matched principal basis, with corresponding buying and selling counterparties. IDBs may also operate on a 'name-give-up' basis, or use a central clearing house for settlement, depending on their choice of business model, which may be a voice broking or electronic one, or a combination of the two. Where the service is screen-based, the details of trades executed should be posted on the IDB's screens for the information of other members of the GEMM community. IDBs have a duty to offer their services to all recognised GEMMs equally, but GEMMs are not obliged to use

them. Note that any non-index-linked GEMMs are not permitted to trade in that asset class with IDBs.

100. A firm offering such brokerage services is not obliged to apply to be 'endorsed' by the DMO, but potential applicants and GEMM users of their services should note that non-endorsed firms will not receive advance warning of market sensitive announcements from the DMO. For the DMO to endorse such an applicant, the broker firm must demonstrate their ability to deliver suitable services and a long-term commitment to the gilt market. The DMO, however, has no role in the compliance monitoring of the activities of any IDB firm in the gilt market – these remain the responsibility of the firm itself and its regulator.

### **3.3 Intermediary Agencies**

101. There may be other firms or platforms that operate as intermediary brokers in the gilt market, but whose counterparty list is wider than just the GEMM community. For reporting purposes, these are treated as Agency Brokers (or Broker Dealers) by the DMO. These firms may be registered as, or operate as, Wholesale Dealer Brokers under the rules and auspices of an RIE, where their client base consists of banks who are active 'traders' in government bonds, corporate bonds or derivatives, or they may broke directly between traders and end-investors. In all cases, GEMMs have no obligation to quote prices to such firms, although they may choose to do so. The DMO has no interaction with such firms.

### **3.4 Settlement**

102. All GEMMs (and IDBs) are expected to be able to settle all trades that they commit to, in a timely and accurate fashion, and to maintain accounts at CREST and other depositaries commensurate with their trading activities and customer preferences. Existing GEMMs are expected to ensure that any changes to their Standard Settlement Instructions (SSIs) are communicated to their customers and to the DMO immediately, and new GEMMs must exchange such details with the DMO before assuming market making operations.

### **3.5 Strips, Stripping and Reconstitution**

103. Between 1997 and 2008, all new conventional gilts were issued with coupon and maturity dates in one of two series – 7 June & 7 December, or 7 March & 7 September - in order to facilitate the 'stripping' of different gilts into fungible coupon payments due on a designated date. Principal strips (i.e. the final par redemption payments) are not fungible, even with coupon strips maturing on the same day, but may still be traded as separate securities. In October 2009, the DMO introduced a further series of coupon and maturity dates for new conventional gilts – 22 January & 22 July – in order further to diversify coupon flows. The DMO has no current plans to make gilts of the new series strippable. However, should it decide to do so, it would make an appropriate announcement at the time.

104. The DMO maintains a list, available on its website<sup>10</sup>, of all those gilts that have been declared eligible for stripping, and the amounts currently held in stripped format, which is updated on a weekly basis. A newly-launched gilt is unlikely to be declared 'strippable' until a sufficient amount of the gilt has been issued, in order to maintain liquidity in both the stripped and unstripped formats – in recent times this has been interpreted as a minimum of £5 billion nominal in issue.

105. Under current gilt market convention, prices in strips (coupons and principals) are quoted in terms of their yield, usually to three decimal places, calculated on an actual/actual basis, with any subsequent cash dealing prices rounded to the nearest penny. The minimum denomination for trading in strips is one penny, and the minimum amount of the source gilt that may be stripped or reconstituted is £10,000 nominal (except for cases where the source gilt is still within

<sup>10</sup> [www.dmo.gov.uk/index.aspx?page=Gilts/Gilts\\_In\\_Issue](http://www.dmo.gov.uk/index.aspx?page=Gilts/Gilts_In_Issue).

its first coupon period, short or long, where the minimum amount is £1 million, for technical reasons<sup>11</sup>).

106. GEMMs wishing to participate in the strips market are invited to become a Strips Market Participant, which indicates that the specific GEMM is prepared to offer a service in strips to end-investors. A list of Strips Market Participants is maintained on the DMO website.

107. 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.

108. Further details on aspects of the strips market can found in the most recent edition of the DMO's Information Memorandum entitled "Issue, Stripping and Reconstitution of British Government Stock", available on the DMO website.

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<sup>11</sup> This is to allow individual strips to be tradable in multiples of £0.01 nominal.



## 4. Dealing with the DMO

### 4.1 Preferred Counterparty Status

109. In almost all of its gilt market operations, the DMO transacts with its primary dealers, 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 (see below).

110. GEMM status signals to clients, existing or potential, that the firm has been recognised by the UK debt management authorities as an active specialist in sterling government bonds. In addition, any proactive dealing that the DMO carries out (see below), either on its own account or on behalf of other government entities, will also be restricted to the GEMM community.

111. In the interests of fairness and transparency, the DMO will endeavour to treat all GEMMs as equals in its dealings, ensuring that GEMMs are appraised of the same levels of information when conducting any market-sensitive activities. The DMO may, however, make a distinction between wholesale GEMMs and retail GEMMs, according to the size and nature of the business being transacted

112. The only other counterparties with whom the DMO may deal directly in gilts are IDBs (for near maturity purchases only), its other counterparties in the operation of its standing repo facility, other Government accounts or departments (e.g. the National Loans Fund, or CRND), the Bank of England, and the Registrar (currently Computershare Investor Services plc) in the conduct of retail purchase and sale dealings.

113. Note that the DMO's cash management market operations (the offsetting of expected cash flows into or out of the National Loans Fund) may involve the use of various sterling or other currency money market instruments, including gilts and gilt repo, and may be conducted with a wider and more varied list of counterparties, as is the case for the issuance of Treasury bills.

### 4.2 Near Maturity Dealing

114. For purposes of smoothing redemption cash flows, the DMO is prepared, when requested by a GEMM, to bid a price of its own choosing for any gilt, including any strip, that has less than twelve months left before its maturity. As they are at this point essentially money market instruments, the bid price will be dictated by the DMO's cash management operations at the time of request.

115. In addition to advertising pro-actively its prices to all GEMMs, via Bloomberg or some other messaging system, the DMO may also post prices or trade on prices on IDB screens, in near maturity gilts only, in order to preserve its anonymity, where this is deemed likely to be a more beneficial approach.

116. DMO dealers will also endeavour to remind primary dealers when maturing gilts are approaching their final ex-dividend period, in order that any holder, GEMM or client, may, if desired, sell the gilt in order to avoid entering into the redemption process. On the final ex-dividend day itself (usually seven business days before redemption), the DMO is prepared to trade with GEMMs in the gilt, up until noon, for same day settlement.

### 4.3 Dealing on Behalf of Other Government Entities

117. From time to time, the DMO may be asked to execute market transactions in gilts on behalf of funds under the management of CRND or other UK Government entities. These may

be purchases or sales. In such circumstances, the DMO will request bids or offers as relevant from three randomly chosen GEMMs, either electronically or by telephone, and deal on the best price received, provided that the order is for 'normal' market size. Where the size is smaller-than-average, the DMO may ask for prices from retail GEMMs only, and where the size is deemed larger than average, the DMO may run a (reverse) tender, following the process described in Chapter 2.

#### **4.4 Retail Purchase and Sale Service**

118. Since December 2004, the DMO has been responsible for the transaction of orders received from members of the public under the Gilt Purchase and Sale Service<sup>12</sup>. This is a low-cost, execution-only service in gilts offered through Computershare Investor Services PLC (the Gilt Registrar) to smaller investors who have registered on the DMO's Approved Group.

119. Under normal circumstances, the DMO will transact these orders over its own portfolio, but in times of heightened demand to purchase or sell a particular gilt or gilts, the DMO may choose to offset the effect on its portfolio by buying or selling gilts from GEMM counterparties.

120. In the interest of transparency to investors, the DMO will publish on its website, on a daily basis, prices at which Purchase and Sale transactions have been executed on that day. This will take the form of a 'snapshot' of bid and offer prices in all gilts, taken at the time that prices were confirmed to Computershare, regardless of whether or not an order was actually received in each gilt. The exact timing of the snapshot will vary from day to day, but will usually be at around midday.

#### **4.5 Standing Repo Facility**

121. The DMO operates an automatic, non-discretionary standing repo facility, whereby any GEMM or other DMO counterparty, which has signed the relevant documentation, may request that the DMO repos out any gilt for repo purposes, which may involve temporary creation of the relevant gilt. This facility exists in order to ensure that market makers can be assured of being able to access and deliver any gilt at any time, albeit at a price, hence maintaining their ability to make two-way prices in the secondary market and avoiding the prospect of delivery failures.

122. The facility is available from 12:30pm on the previous day up until 11:30am on the same day of settlement. Participants may roll the facility on a day-to-day basis, but the DMO does not anticipate accommodating a continuous roll for a period of more than two weeks. The minimum size of such a request is £5 million nominal per gilt, and the DMO will charge a penal overnight rate usually expressed as a discount to the Bank Rate. At the same time, the DMO will normally insist on a back-to-back reverse repo of gilt collateral at the Bank Rate, in order to neutralise the effect of the standing repo on funding requirements and its own cash management operations. The full terms and conditions of the facility are published separately on the DMO website, and may be revised from time to time according to market conditions and the prevailing Bank Rate. Any changes will be announced.

123. Details of the amount and terms of any standing repo trigger will be published on the DMO's dedicated wire services pages and website as soon as possible after 11:30am on the relevant day, and the DMO will also publish the return of the gilt(s) on the following day or later, as appropriate. The counterparty(ies) involved will remain anonymous to the market, although the DMO reserves the right to share such information with other official regulatory bodies in appropriate circumstances.

124. In the event that gilts are created for such purposes, the DMO understands that they will not be eligible for inclusion in the calculation of FTSE or iBoxx gilt indices.

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<sup>12</sup> Prior to December 2004 this was a responsibility of the Bank of England.

## **4.6 Special Repo Facility**

125. If the DMO considers that there is sufficient evidence of severe market dislocation or disruption, it may offer gilt(s) for repo-ing to any GEMM that has signed the required legal agreements with the DMO on different terms to those of the Standing Repo Facility. Again, this may involve temporary creation of the relevant gilts. Such circumstances will need to have been persistent and are not likely to be tied to any single event (e.g. delivery of a cheapest-to-deliver gilt into a single futures contract) or difficulties encountered by a single market participant.

126. The terms and conditions of the facility, including any rate of repo, which may or may not be penal, and the amount of gilt(s) available for creation, will be announced on the DMO's wire services pages and the website. Any subsequent cancellations or withdrawal of the facility will be also announced in a similar fashion. As with the standing repo facility, such operations will usually involve a back-to-back, cash-for-cash reverse repo of gilt collateral with the same counterparty(ies) at the Bank of England's prevailing Bank Rate. Where gilts have been created, the DMO understands that none of such gilt(s) will be eligible for inclusion in the calculation of FTSE or iBoxx gilt indices.



# 5. Data Provision

## 5.1 Data Provision by the GEMM Community

127. 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.

128. 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, via pages on the various wire services or by participation on multi-dealer electronic trading platforms. 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. GiltSWAN & GemmData SFTPs

129. The DMO uses electronic file transfers for the provision of end-of-day prices, positions and weekly turnover reports. Data are transferred over secure file transfer protocol (SFTP) systems, known as GiltSWAN for prices and GemmData for positions and turnover. 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.

130. 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 e-mail address(es). Any such error messages should be heeded and acted upon, and where necessary a corrected file re-transmitted as soon as possible.

131. 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.

132. Any queries regarding operation of the SFTP reporting systems 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. End-of-day prices

133. On behalf of the GEMMA, the DMO currently collates and publishes end-of-day prices in all gilts<sup>13</sup>. (See the section on "Data Provision by the DMO" for details of how the DMO collates and publishes the data). In 2015, the DMO announced its strategic intention to withdraw from the provision of these prices in due course, following a period of stakeholder engagement, review and transition process to a potential alternative provider or providers. An Independent Reference Prices Review is taking this forward, under the leadership of Professor David Miles.

134. At present though, all GEMMs are required to submit an electronic prices file, in the designated format and using designated channels, to the DMO on a daily basis. The file should contain that GEMM's mid-market price in all conventional and index-linked gilts, except STRIPs, in which they are a designated market maker. The prices should be taken as a 'snapshot' at exactly 4:15pm every afternoon – this timing is to coincide with ICE's official settlement of its gilt futures contracts.

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<sup>13</sup> In the case of strips, the DMO publishes indicative prices based on its internal yield curve.

135. GEMMs have until 4:45pm to format their files and transmit them to the DMO, where they are collated and published on the wire services at 5:00pm<sup>14</sup>, and later that evening on the DMO website.

136. Files are expected to contain accurate prices and a fully comprehensive list of the specified gilts (excluding strips). The DMO takes no responsibility for the quality of the input, hence GEMM firms must have in place internally compliance-approved procedures to ensure the integrity and quality of their price file submissions. The DMO reserves the right to share prices submitted with other official bodies in appropriate circumstances, but will otherwise treat the content of these price files as confidential. The DMO aims to provide weekly feedback to every GEMM firm about its individual contribution performance record. Dealers also need to ensure that their systems are kept up-to-date with any changes in the gilt portfolio – this means the timely addition of any new gilts and the deletion of gilts as soon as they enter their final ex-dividend period prior to redemption.

### **C. Positions data**

137. GEMMs are also 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. Under normal circumstances, the DMO will not look closely at individual holdings, but will use 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 other market authorities in appropriate circumstances.

138. 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 may be relevant as a signal of dislocation in the market, and will also be treated as commercially confidential by the DMO.

139. 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 8:00am the following business day morning.

### **D. Turnover data**

140. 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 8:00am 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 the Friday itself was a Bank Holiday (e.g. Good Friday).

141. 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 dirty price).

142. 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 that each GEMM's system must be able to collect and collate each week's turnover data and correctly identify which trades are allocated to which counterparty type, etc. The DMO will be prepared to offer help and advice, but

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<sup>14</sup> These timings may be brought forward on days when a relevant Exchange closes early (e.g. Christmas Eve or New Year's Eve).

ultimately it is the responsibility of individual GEMMs to ensure that they are complying with these requirements.

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

143. On the day of a gilt auction, conventional or index-linked, GEMMs are asked to provide details of transactions over a minimum size<sup>15</sup> executed on the day of each auction. These details should be submitted by e-mail to the DMO by 9:00am on the morning after each auction, on the template form provided. The DMO may also request that GEMM firms 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.

144. The DMO requests these data for its own analytical purposes. The DMO will treat all such submissions as commercially confidential, but reserves the right to share them with 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 firm itself and its regulator.

## **5.2 Data Provision by the DMO**

#### **A. Intra-day prices**

145. Between the hours of 8:00am and 4:15pm London time, on a best endeavours basis, the DMO currently collates and publishes a composite page of reference mid-prices in all liquid conventional and index-linked gilts. These prices represent the average of contributions from GEMMs to the wire services, after discarding any stale contributions and the highest and lowest outlier quotes for each gilt. The DMO's composite pages will therefore update every time a new GEMM contribution in any individual gilt is sufficient to change the overall average price. Note that these reference prices do not constitute an offer from the DMO to buy or sell securities, nor are they in any way intended to be binding on GEMMs dealing with other market participants, and no liability is assumed by the DMO. Ownership of the input data remains with the individual contributing GEMMs, but no GEMM or third party may re-distribute the output, in any format, on a chargeable basis. The composite reference prices are published to various wire services providers and are available to all subscribers to those services, without additional charge and without discrimination over access.

#### **B. End-of-day GEMMA reference prices**

146. Upon receipt of the end-of-day price files (set out above in "End-of-day prices" in this chapter), DMO dealers run an automated averaging program, which collates all the data received from individual GEMMs on a gilt-by-gilt basis. The program calculates first the median of all contributions received, then rejects any that are outside tolerated boundaries and finally re-calculates the arithmetic mean of the remainder<sup>16</sup>. Once this clean price is derived, dirty prices and yields can then be calculated.

147. The DMO will also publish theoretical reference prices for strips calculated from its internal yield curve model, which are themselves calculated using the averaged reference prices in conventional gilts derived from GEMM contributions.

148. The full set of reference prices is currently downloaded and published to the relevant wire services pages at 5:00pm every evening, and later in the evening on to the DMO's website, on a best endeavours basis, with no liabilities assumed by the DMO. The DMO also sends these prices to CREST, the Bank of England and the LSE..

<sup>15</sup> These amounts are varied according to the nature of the gilt being auctioned and amount already in issue.

<sup>16</sup> For further details on the calculation of GEMMA reference prices and applicable tolerance levels, please see [www.dmo.gov.uk/documentview.aspx?docname=/giltsmarket/formulae/gemref.pdf](http://www.dmo.gov.uk/documentview.aspx?docname=/giltsmarket/formulae/gemref.pdf).

149. Please note that, as mentioned above in paragraph 133 above, the DMO has announced a strategic intention to withdraw from the provision of these prices in due course, following a period of stakeholder engagement, review and a transition process to a potential alternative provider or providers.

### **C. Weekly feedback on GEMMA contributions**

150. The DMO reserves the right to query the accuracy of GEMMA reference price submissions, but absence of such query does not amount to endorsement of the quality of the prices. Each GEMM firm has ultimate responsibility for ensuring that its end-of-day price submissions are accurate, timely and produced using a methodology approved by its own compliance department(s). To this end, the DMO aims to provide all GEMM firms with weekly feedback on their performance in contributing prices in the preceding week. This feedback is in the shape of a graph and table which provide a daily record of: (a) the number of prices accepted, (b) the number of any prices rejected as outliers, and (c) any non-contributions. Where there are any instances of either (b) or (c) above, GEMMs are expected to investigate the cause and to take swift corrective action.

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

151. Turnover data submitted by the GEMMs to the DMO are collected and collated on a weekly basis. From the data received, the DMO will calculate 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'.

152. 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 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 will also calculate individual GEMMs' 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 to enhancing price discovery and market efficiency.

153. 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 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.

### **E. Quarterly turnover**

154. 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 are published to individual GEMMs, and on an aggregated basis to the wider market on the DMO website. Note that by their very nature, 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.

155. Each quarter is taken as a 13-week period, dated as closely as possible to the beginning of January, April, July and October 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 3-month period.

156. Each GEMM will receive a package of charts detailing the following: overall week-by-week gilt market turnover, split between different counterparty types and including a 13-week average; individual week-by-week turnover, with the same counterparty splits and 13-week average; a breakdown of overall market turnover by maturity band/type of gilt, with the same counterparty splits; individual turnover by maturity band/type of gilt and by counterparty type; and finally a chart measuring levels of concentration in the secondary market by use of Herfindahl indices.

157. Aggregated data – the equivalent of the first, third and fifth charts mentioned above – are published on the DMO website as soon as they are made available for public release, on the DMO's website.

## **F. General data provision**

158. The DMO website <[www.dmo.gov.uk](http://www.dmo.gov.uk)> also includes a range of data and information on all aspects of the gilt market, and forms the primary source of reference material from the DMO to the market including dealers, investors, analysts and all other interested parties. GEMMs are advised to familiarise themselves with the content and navigation of the DMO website, although the DMO may always be contacted for assistance.

## **G. Ad hoc requests**

159. From time to time, the DMO is also requested, by GEMMs and others, to provide customised turnover data, to suit a specific presentation, publication or piece of research.

160. In the interests of openness, transparency and freedom of information, the DMO is prepared to consider supplying the data requested on a case-by-case basis provided that the following conditions are met:

- the request is not unreasonable and not disproportionately labour-intensive to provide;
- the subject matter or output is not in any way commercially- or market-sensitive, in that it might reveal details of any individual institution's<sup>17</sup> market positions or transactions that it would otherwise wish to protect; and
- the DMO is credited as the source of the data and that the data are not reproduced, in any format, other than for the purpose for which it was originally requested, without prior consent from the DMO.

161. Requests for such data should be addressed in the first instance to the DMO's Head of Dealing, Information Manager and/or Press Officer, whose contact details are provided in Annex A of this publication.

## **5.3 Freedom of Information**

162. 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.

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<sup>17</sup> This includes the DMO itself.

163. Legitimate business interests of GEMMs and other third parties may be protected by a series of exemptions within the Act. Whilst the decision to disclose or not rests solely with the DMO, every effort will be made to consult with the source prior to a decision being taken, where third party information is involved.

164. Further information on Freedom of Information may be obtained from the DMO's Dealing Desk or its Information Manager.



## 6. Information Provision

### 6.1 Prices

165. As mentioned in the previous chapter, GEMMs are strongly encouraged to provide comprehensive and accurate real-time price information to their client bases, either through proprietary dealer-to-customer platforms, via pages on the various wire services and/or by participation on multi-dealer electronic trading platforms. 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.

### 6.2 Contact Details

166. 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 e-mail addresses of the following: all traders, senior salespeople, compliance officer, 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 BAS.

### 6.3 Consultations

167. Over the course of a financial year, the DMO will undertake wide ranging dialogue with representatives of the GEMM community and others. This may take the form of face-to-face meetings, electronic, written and/or oral requests for information or opinion.

#### A. Annual consultation

168. Early in the calendar year, all GEMMs will usually receive an invitation to send a representative to attend, and contribute to, an annual meeting with the Treasury Minister responsible for debt management. The purpose of this meeting, normally held at HM Treasury in Westminster, is to inform the Minister, HM Treasury officials and the DMO of market makers' advice on the structure of the financing remit for the forthcoming financial year.

169. Topics under discussion are likely to include the likely scale of borrowing in the coming year, options and preferences for maturity bands or instrument type splits, possible new issues of gilts or instrument design, as well as any relevant matters of wider government policy or current concern.

170. Summary minutes of this meeting, and similar ones held with representatives of end-investors in both London and Scotland, will be published as soon as practicable on the following business day.

#### B. Quarterly consultations

171. On a quarterly basis, the DMO will host a meeting with representatives from each of the GEMMs, at which the options and preferences for financing operations over the forthcoming three months, as well as any other topical matters, will be discussed. They are normally held on a Monday evening, towards the middle of March, May, August and November. An agenda is normally published a week in advance. GEMMs are invited, and expected, to send one representative each. Ahead of each meeting, GEMMs are required to complete a template, provided by the DMO, setting out their specific views on issuance choices for the forthcoming quarter.

172. Consultation meetings take the form of a roundtable discussion, led by the DMO, which will summarise the events and operations in the current quarter, before outlining the financing

options for the coming quarter, within the bounds of the published remit and current policy. The DMO may also point out any portfolio preferences of its own, but these should not necessarily be seen as prescriptive. GEMM representatives are each asked to put forward their own 'house' views on the scheduling of auctions and syndications (where relevant) over the coming quarter, giving the reasons behind their choices. Attendees are also given the opportunity to raise questions or suggestions about any other aspect of gilt financing or the market in general.

173. Summary minutes of these meetings, and similar ones held with representatives of end-investors, will be published as soon as practicable on the following business day.

174. Decisions on the actual timetable and the identity of auction gilts for the forthcoming quarter are made by the DMO taking account of feedback received from these meetings, and usually published at 3:30pm on the last business day of the month in March, May, August and November.

### **C. Ad hoc consultation exercises**

175. From time to time, the DMO may launch a formal consultation exercise on any issue pertinent to reform or innovation in the gilt market. Formal consultations usually consist of the publication of a paper outlining the DMO's proposals on the topic and the rationale behind them, and an invitation to comment to all market participants, with a deadline for response. Following receipt of these comments, the DMO may formulate definitive policy and publish a response document, or it may seek further clarification of views on issues of detail. All GEMMs are expected to participate with due consideration in such consultation exercises.

176. The DMO may also conduct less formal market soundings on some issues. These may range from a questionnaire posted on the DMO website to a simple e-mail or Bloomberg message to GEMM traders requesting information or opinions on a more minor matter. Again, all GEMMs are expected to respond to such requests. In addition, the DMO may seek information through a series of one-to-one meetings (e.g. an agenda item at regular bilateral meetings with GEMMs) or it may target certain institutions or individuals, market makers, investors or others, known or believed to have a particular interest or expertise in the matter under debate.

## **6.4 Market Intelligence**

177. In order to fulfil its role as debt manager, the DMO needs a good flow of information from the market about demand and market conditions, current and prospective. The DMO looks to the GEMMs to provide relevant and timely views and information via: its regular feedback requests, in its quarterly consultation meetings, by contact on specific topics with relevant DMO personnel, by sharing research and analysis pieces and day-to-day information through contact with the DMO's dealing desk. As well as feedback specifically relating to the financing programme, this may also include giving feedback on general market sentiment, information on changing investment practices and trends, developments in the investor base and issues relating to GEMM franchises and market liquidity.

## **6.5 Research**

178. Most GEMMs have associated research functions in which specialist analysts produce research on the sterling markets. Whilst it is recognised that the production of research is primarily for use as a 'marketing tool' for investment banks to reach out to their existing or potential client base, the DMO is grateful to primary dealers who produce such analysis as a means of promoting the gilt market to new investors or opportunities to existing ones, all of which helps to improve the liquidity and orderliness of the market. The DMO is also keen to receive relevant research itself.



## **6.6 Conferences and Presentations**

179. Throughout the year, GEMMs, market and media organisations and others may host conferences, forums or seminars on subject matters relating to the UK economy, sterling and/or sovereign bond markets, or specific subsets of these markets. The DMO welcomes the staging of such events as a means of promoting the gilt market, reaching out to new investors or simply as a means of better informing existing participants. To this end, the DMO is prepared to consider requests to participate at these events itself, subject to resource availability, the perceived relevance to its own operations and fairness to all relevant institutions.

180. Similarly, the DMO is also prepared to consider requests to meet with or make presentations to GEMMs' customers, individuals or groups, existing or potential, again subject to considerations of resource, relevance and fairness.

## **6.7 DMO Announcements to the Market**

181. In the interest of transparency and predictability, the DMO strives to release announcements at a set time of the day. For gilt auctions and tenders this will usually be shortly after 10.30am. Unless otherwise mentioned, other announcements to all market participants are generally released at 3:30pm, and occasionally at 7:30am or 8:00am, simultaneously on recognised wire services and as soon as possible thereafter via a DMO Press Office e-mail and on the DMO website, although the DMO does reserve the right to make an announcement at any time, depending on the circumstances - for example, remit-related announcements made following the Chancellor's Budget speech and any other public revisions of the public finance forecasts).

182. The interest and redemption payments for all index-linked gilts with first issue dates before 2002 are fixed by the Bank of England. The Bank aims to announce details of these payments by 2:30pm on the day that the relevant value of the General Index of Retail Prices (RPI) is published. The DMO is responsible for fixing and announcing the interest and redemption payments for index-linked gilts first issued from 2002 onwards, and aims to announce details of these payments by 3:30pm on the day that the relevant inflation index value is published. On days on which both the Bank and the DMO publish details of index-linked gilt interest or redemption payments, the DMO's announcement will also incorporate details of the payments published by the Bank. In every case, all fixings are published on the DMO website.

# 7. Relationship Management

183. It is in the interests of all concerned that a close and productive working relationship is maintained between the issuer and primary dealers. To this end, the DMO endeavours to manage relationships between the parties involved in the following respects.

## 7.1 Daily Contact

184. All GEMMs are required 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.

185. 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>18</sup>.

## 7.2 Regular Bilateral Meetings

186. The DMO aims to conduct a round of structured bilateral meetings with representatives of each GEMM on a regular basis. These meetings are usually attended by the DMO's gilt dealers and a member of the DMO Managing Board on one side, and GEMM dealers, including the head of the desk, and a senior manager on the other.

187. The agenda for each of these meetings is usually standardised for all GEMMs, although the focus and direction will vary according to individual views and circumstances. It is normal for the first half of the agenda to follow a set pattern of discussing the relevant GEMM's corporate and staffing issues and participation in the primary and secondary markets, while the second half of the agenda will discuss topical events, issues or proposals in the gilt market at the time. GEMMs may raise other matters under 'Any Other Business'. The DMO may take minutes at such meetings for purposes of internal reporting.

## 7.3 Ad-hoc Contact

188. Meetings between GEMMs and the DMO are not restricted to the scheduled 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>18</sup> Contact details for DMO personnel are provided in Annex A.

## 8. Regulation, Propriety and Exchange Membership

189. UK gilts are listed securities, currently listed on the London Stock Exchange (LSE) and other RIEs in Europe, and, as such, are treated as 'on-exchange' products, even though the vast 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 RIE). It is a requirement of the DMO that all GEMMs be members of an RIE that lists gilts and that they are regulated by a competent and recognised regulatory authority; in practice this means the UK's FCA. GEMMs are expected to comply fully with these institutions' regulations.

### 8.1 Supervisory Regulation

190. As most, if not all, GEMMs will be based in London, they are expected to be regulated by the FCA, and to comply fully with its 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 European Economic Area 'passport' arrangements with their home market regulator.

191. Monitoring of an individual GEMM's operations in the gilt market and elsewhere is the responsibility of the FCA, 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 twin objectives, the FCA and 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 DMO may also liaise where either party is proposing a (significant) change to the existing market structure or regulation.

### 8.2 Propriety

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

### 8.3 Exchange Membership

193. Again, as most, if not all, GEMMs will be based in London, they are expected to be (come) members of an RIE 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 RIE must first seek jurisdiction approval from the DMO.

194. The complete rules of any RIE are expected to be available on the exchange's website, and GEMMs should note that these 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, as well as rules relating to the conduct and regulation of IDBs themselves.

## 9. Entry and Exit Procedures

195. 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, nor does it operate a 'promotion and relegation' system for its primary dealers. Barriers to entry as a GEMM are kept as low as is prudent, but there remain 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.

### 9.1 Application Process

196. 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 assess risk management procedures and practices.

### 9.2 Essential Criteria for New GEMM Applicants

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

- demonstrate a long term commitment to the UK government bond market;
- have a viable business plan, bringing added value to the gilt market. Firms should look to meet existing market demand and widen the investor base for gilts where appropriate;
- sufficient balance sheet capability to support activity in the gilt market;
- a credit standing sufficient to ensure 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 the ability to settle gilt transactions in CREST;
- written approval from both a Regulated Investment Exchange and their regulator to undertake activity as a GEMM; and
- a willingness to sign up to all of the DMO's requirements and expectations.

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

### 9.3 Procedures for Going 'Live'

199. Assuming that an applicant firm meets the criteria listed above, and is approved by the DMO, the relevant RIE and their respective regulator, the DMO's Chief Executive or other Managing Board member will write to the senior representative of the firm to inform him/her whether its application 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 RIE, 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.

200. Once all these procedures have been completed, the DMO, jointly with the RIE, 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.

#### **9.4 Candidature and Probation**

201. 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 two parties, on the grounds of commercial interests, but depending on the particular situation 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. Such targets are unlikely to be any more onerous than those already imposed on existing market makers. At the end of the candidature period, the DMO will inform the firm whether it has been granted 'full-time' GEMM status.

202. 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, for example, direct auction bid submission for own account and client bids and access to IDBs. However, they will not generally be eligible for consideration as members of a syndicate group, where fees are paid by the UK Government to members.

203. 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. Performances will be routinely analysed and discussed at the regular bilateral meetings between the DMO and GEMMs.

204. 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 an agreed 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 firm will be asked to resign as a GEMM.

205. 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.

206. Notwithstanding the provisions of paragraph 204, 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 primary market maker in UK gilts.

## 9.5 Exit Procedures

207. 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 (e.g. a change in business priorities, or bank consolidation). 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.

208. 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.

209. A firm that does resign its status will be asked to return any property belonging to the DMO (e.g. any electronic hardware or software) as soon as is practicable. In the interests of discouraging 'fair weather' trading, it is unlikely that the DMO would approve an application from the same firm to rejoin the GEMM community for some considerable period of time.



# 10. Contingency Arrangements

210. The following chapter covers some of the arrangements that the DMO has made or will invoke in the event of a disruption to normal operations. As there are a wide number of such possible disruptions, the arrangements set out below should be seen as working assumptions that may be varied in the event of a specific incident.

## 10.1 Business Continuity Sites

211. In common with many other investment banks and other businesses, the DMO has a dedicated back-up site, which it may invoke in times of interruption to normal operations at its offices in Eastcheap Court. As far as possible, the DMO has arrangements in place to ensure minimal disruption in the event of invocation. However, there may on occasion be a risk of delay, depending on the nature of the circumstances, between the occurrence of an 'event' and the resumption of the full range of normal activities. Nevertheless, the DMO will endeavour to keep stakeholders and counterparties apprised of its operational status via announcements on its wire services pages and/or website, or other means.

212. The DMO also has reciprocal arrangements with the Bank of England, to cater for interim or short-term periods of disruption. In the event of DMO dealers being denied access to their systems or office premises for whatever reason, GEMMs might expect to be contacted by staff at the Bank or for announcements to be made on the Bank's wire services pages.

213. The DMO expects GEMMs to have made similar arrangements for continuity of their own businesses, and would be willing to consider requests to participate in any testing exercises, subject to resource availability. GEMMs should also provide the DMO with emergency contact details, for use in the event of their operations being disrupted.

## 10.2 Auctions

214. The DMO, and the market, is particularly at risk if the occurrence of an unusual or emergency event were to coincide with the running of a scheduled gilt auction or similar operation.

215. The DMO is aware that the market's strong preference is likely to be that the auction should be conducted at the scheduled time on the scheduled date, and that the postponement or cancellation of an auction should only be considered in extreme circumstances. However, in the event of a situation where the DMO, or a significant number of GEMMs, are wholly or partially incapacitated for whatever reason, the DMO's preferred option may be to postpone the holding of the auction until later on the same day, or possibly the following morning, in order that the auction, and any WI trades previously executed, may still be settled on the same day as originally advertised.

216. The incapacity of a single GEMM is unlikely to cause the postponement or cancellation of an auction. In the event of an interruption of this nature, GEMMs should contact the DMO as soon as possible in order that special arrangements for the submission of bids may be made. However, the DMO will not be able to offer any special facility to guarantee the allocation of gilts, other than the usual non-competitive allocation.

## 10.3 Secondary Market Dealing

217. In the event that the DMO's capacity to operate has been affected for any period of time due to emergency circumstances, GEMMs should be aware that the DMO's provision of prices for near maturity gilts is likely to be withdrawn temporarily, until such time as normal operations are resumed, either from its offices in Eastcheap Court, or from the recovery site.

218. It is also likely that, in such circumstances, the publication of real-time prices on the DMO's wire services pages will be suspended temporarily.

219. The DMO is also likely to exempt a GEMM from its market making obligations, on a temporary basis, should that GEMM suffer from a loss of key personnel or systems due to emergency circumstances beyond its control.

#### **10.4 End-of-day GEMMA Reference Prices**

220. In the event that one or more market makers are unable to contribute end-of-day price files, due to systems problems at either end, there is a facility through which DMO dealers can input files into the database on behalf of the relevant GEMM(s), provided that the GEMM can transmit its file to the DMO by some other means (e.g. e-mail or Bloomberg message). The same is true for daily positions or weekly turnover data, although the deadline for submission of these files is less urgent.

221. In the event that a systems problem means that no GEMM, nor the DMO on their behalf, can input end-of-day price files, then the DMO reserves the right to use its own dealers' contingency price file to generate end-of-day GEMMA closes. As with the GEMM contributions, this file is a record of the DMO dealers' reference prices, taken as a snapshot at 4:15pm, and produced on a daily basis for just such a purpose, as well as internal records. However, time limitations and the current configuration of the contingency programme may mean that strips prices might not be updated on any day where database access is denied.

#### **10.5 Wider Market Resilience Measures**

222. As a government agency with particular responsibilities in the financial markets, the DMO works closely with the UK's tripartite authorities (Bank of England, HM Treasury and the Financial Conduct Authority) in business continuity planning and testing, with the intention of strengthening the financial sector's resilience to maintain or restore operations in the event of disruption. In such circumstances, the tripartite authorities' main communication mechanism will most likely be the Financial Sector Continuity section of the Bank of England's website: <[www.bankofengland.co.uk](http://www.bankofengland.co.uk)>.



# 11. Conclusion

223. It is hoped that this document will serve as a valuable source of reference for traders and other personnel working for institutions recognised as GEMMs by the DMO, as well as for other interested parties.

224. The content is believed to be accurate in describing the situation in the UK gilt market as it stands at the time of publication in March 2016, but readers should be aware that conventions and regulations may change. Any major changes in policy regarding the operation of the gilt market and its primary dealers would be announced by the DMO via the usual channels, and revised chapters to this document issued in due course.

225. Any comments on the content with a view to enhancing future publications, or requests for further clarification on any matter, should be addressed to the DMO's Markets Team, whose contact details appear in Annex A of this document.

# Annex A. List of DMO Contacts and Wire Service

## 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.gsi.gov.uk
	Policy Team	020 7862 6532	policy@dmo.gsi.gov.uk
	Press Team	020 7862 6532	pressofficer@dmo.gsi.gov.uk
	Information Manager	020 7862 6528	recordsmanagementservice@dmo.gsi.gov.uk

\*and Co-Head of Policy and Markets

## DMO Wire Service Pages

Information	Thomson Reuters	Bloomberg
<b>Index</b>	DMO/INDEX	DMO<GO>
<b>Announcements</b>	DMO/GILTS1 to 9	DMO1<GO>
<b>Intra-day Conventional gilt prices</b>	0#GBTSY=DMO	DMO2<GO>
<b>Intra-day Index-linked gilt prices</b>	0#GBTSYIL=DMO	DMO3<GO>
<b>GEMMA ref prices (Conventionals)</b>	0#GBTSY=GEMM	DMO4<GO>
<b>GEMMA ref prices (3-month I-L)</b>	0#GBTSYIL=GEMM	DMO5<GO>
<b>GEMMA ref prices (8-month I-L)</b>	0#GBTSYIL=GEMM	DMO6<GO>
<b>GEMMA ref prices (Strips)</b>	0#GBSTRIP=GEMM	DMO7<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>T-bill reference closing prices</b>	0#UKTB=DMO	DMO12<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 (PRC, PSN or TRN for price, position and turnover respectively): eg. GD-NN-TRN-YYYYMMDD.csv. Detailed technical descriptions of reporting requirements are available upon request from a (prospective) GEMM firm.

## Daily Price Reports

GEMM firms are expected to contribute a price for all gilts in which they are recognised market makers, including any WI issues, regardless of whether or not the forthcoming auction gilt is a new issue or the re-opening of an existing gilt. GEMMs are not required to submit prices for strips in these reports.

### Time window

These reports must be sent between 4:15pm and 4:45pm on every business day (occasionally this window may be changed, e.g. Christmas Eve early close).

### Content

- Each file should begin with line 1 giving your firm's unique ID code.
- Line 2 should give today's date (DD-MMM-YYYY format).
- Subsequent lines should list all relevant gilts by ISIN code, followed by the GEMM's mid-price as at 4:15pm.

## 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 8:00am the next morning on every business day (occasionally this window may be changed, e.g. Christmas Eve early close).

### 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, (eg. PO02,10FUT,Jun14,80).
- 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 8:00am every Tuesday morning (or Wednesday in the case of Bank Holiday Mondays).

### 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. dirty price x nominal size). All values should be counted in £000s.

Counterparty codes are as follows:

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 Maker firms
IDBS	Inter-Dealer Brokers (those endorsed 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 of thumb, 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**

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 a member firm of a Recognised Investment Exchange (RIE) that lists gilts, for example, the London Stock Exchange. This means that your firm's gilt business will be regulated by the RIE, as well as an EU/EEA supervisory regulator, and you will be required to adhere to all the RIE'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>19</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 Gilt-edged Market Making business (GEMM) or index-linked specialist business (IL GEMM) fits into the firm's overall business strategy.

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<sup>19</sup> Please give ratings, including outlooks, from Moodys, 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 expects 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 6-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;
- 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 in the UK Government bond market", as summarised in "Wholesale GEMM Criteria, Obligations and Privileges"<sup>20</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).

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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<sup>20</sup> Latest versions are available on the DMO website or in hardcopy from the DMO.



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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 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.