

The UK Treasury bill market

ICMA response to the HM Treasury & United Kingdom Debt Management Office consultation document (January 2026)

February 27, 2026

Background and key recommendations of the response

ICMA is pleased to be able to respond to the UK government's consultation document on the UK T-bill market. ICMA would concur with the government's assessment that there is scope to build up the stock of T-bills, so that they come to play a larger role in the government's debt financing programme, which could help to reduce the overall cost of financing the UK's public debt. As the document identifies, this will require not only enhancements to primary market operations, but also the development of a more active and liquid secondary market, in order to promote greater participation. ICMA's response provides a number of recommendations, as well as highlighting further considerations, with a view to supporting the objective of expanding and deepening the UK T-bill market.

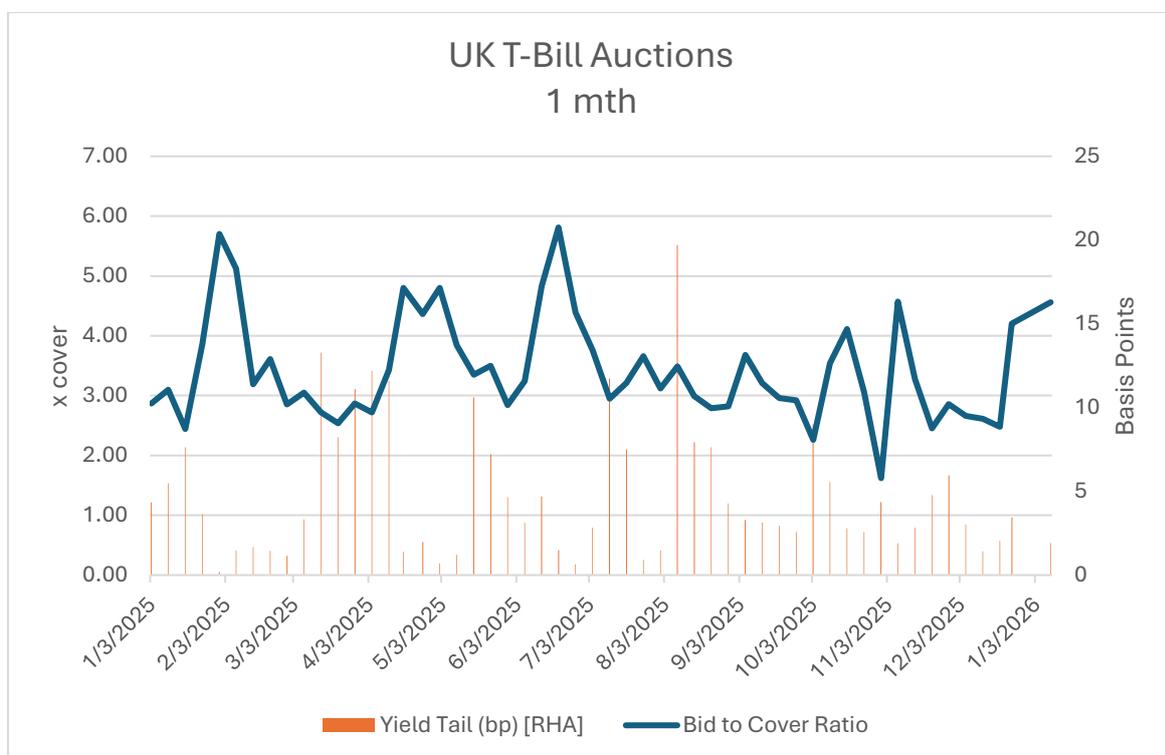
In responding to this discussion paper, ICMA, convened a dedicated working group (the "Taskforce") from its diverse membership, including members of key ICMA market committees and constituencies, such as its Secondary Market Practices Committee (SMPC), European Repo and Collateral Council (ERCC), short-term markets-focused Commercial Paper and Certificates of Deposit Committee (CPC), Asset Management and Investors Council (AMIC), as well as the recently formed Gilt Repo Market Taskforce. The Taskforce includes gilt-edged market makers (GEMMs), Treasury Bill Primary Participants (TBPPs), gilt repo market-makers, custodian banks, investors in the UK gilt and short-term sterling markets, including money market funds, as well as relevant infrastructures such as trading venues and CSDs. The Taskforce is therefore a rounded representation of the UK T-bill market, current and potential, with a diversity of perspectives and priorities. Throughout this response, references to ICMA's views are those of the Taskforce, unless otherwise clarified.

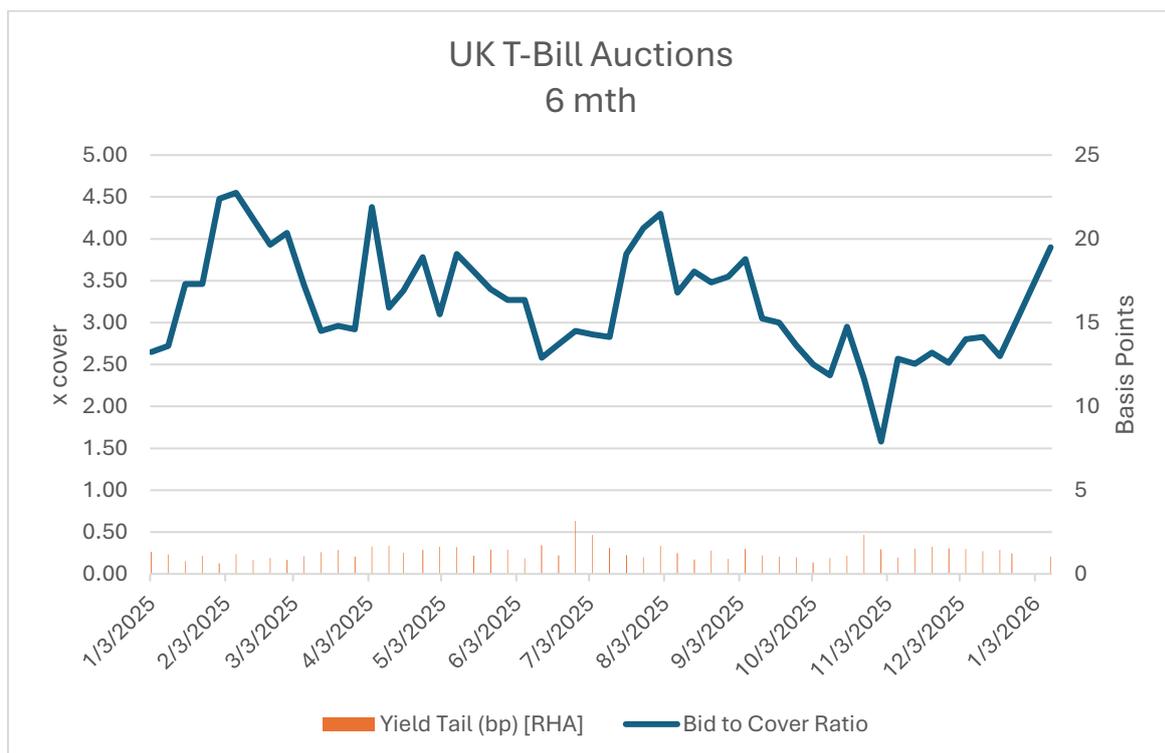
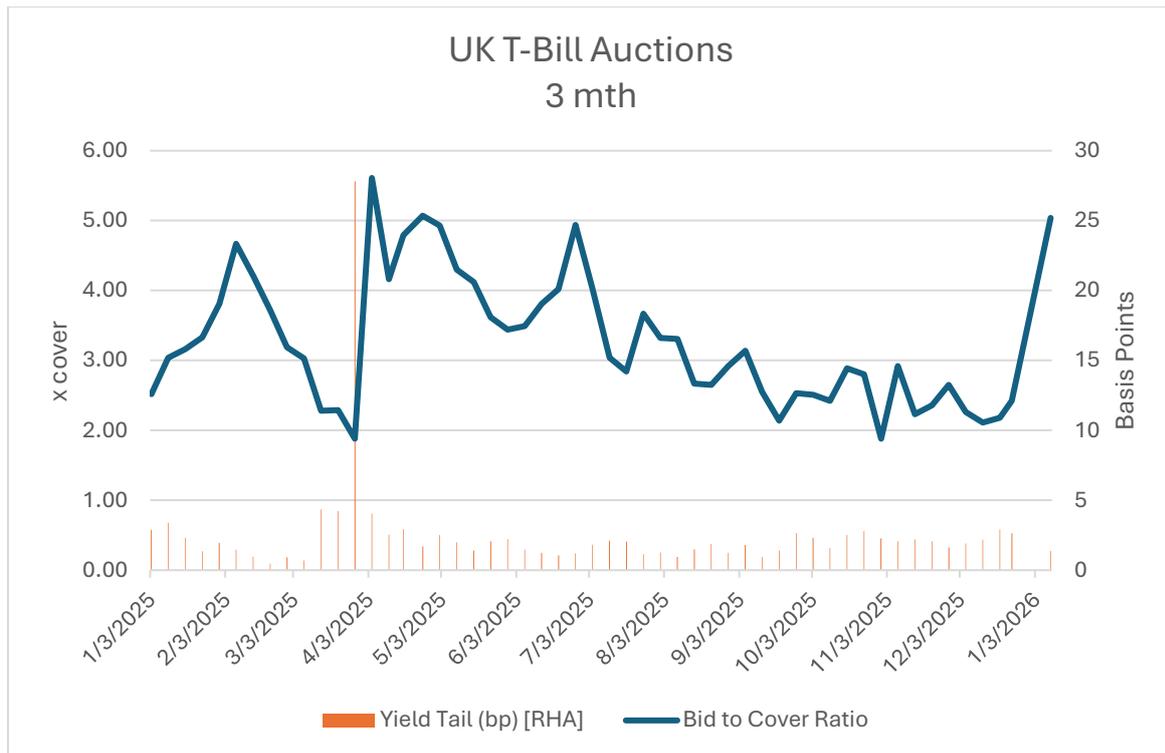
The key recommendations of the Taskforce can be summarised as follows:

- ICMA is fully supportive of the UK government's objective of diversifying its financing sources and believes that T-bills can play a more prominent role in its outstanding stock of debt. As illustrated by high cover ratios in the primary market (*see Figure 1*), and skewed bid-ask spreads in the secondary market (*see Figure 4*) there is a strong case for sustainably increasing T-bill supply. This will also create the basis for a deeper and more liquid secondary market, which will support primary demand organically.
 - Along with increased supply, more diversity in issuance will be important. In particular the introduction of longer tenors, such as a 12-month bill.
 - There is strong potential for retail participation. Here ease of access and investor education will likely be key. Other incentives, such as tax efficiency, could also be considered.
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- Direct measures to improve secondary market liquidity should be taken, including providing incentives for market makers and other liquidity providers. Key to this will be a repo standing facility to make available individual lines of T-bills to market-makers on a reasonable basis.
- ICMA would urge that the government take a gradual approach to expanding the size of the T-bill market, ensuring that the necessary structural innovations and initiatives are in place first.
- ICMA would point to the US T-bill market as the most appropriate model for developing the UK’s market.

Figure 1: Primary market demand





Source: UK DMO

A: T-bill investor base and demand factors

1. How do you use T-bills and what is your T-bill investment strategy? How do T-bills benefit your operations and/or overall investment strategy?

See response to Q2.

2. Please provide a description of the current and potential investor base for T-bills as you understand it, including investors' relative levels of involvement in the market and the benefits of these instruments to different types of investors. In addition, respondents should comment on each investor type's current and potential future participation in this market.

Response to Q1 & Q2

Current investor base

ICMA members utilize the UK T-bill market in different ways.

Money Market Funds (MMFs): Public Debt Constant Net Asset Value (PDCNAV) funds are required to invest in short-dated government securities. However, currently these funds rely heavily on the repo market, reverse-repoing gilts. This is mainly due to the fact that there is very little liquidity both in very short-dated gilts, that have rolled down the curve, or the T-bill market. This constraint can be viewed through the lens of the disparity between the value invested in sterling MMFs (roughly £300bn)¹ and the amount of outstanding UK T-bill stock (approximately £100bn).²

Other buy-side institutions, including asset managers, pension funds, hedge funds, and sovereign wealth funds, will often use T-bills as part of their suite of short-term liquidity management tools. This includes non-UK domiciled funds. T-bills may also become an attractive alternative to reverse-repo during periods when bank balance sheet constraints limit repo market intermediation, such as over calendar year-end.

Bank treasuries invest in T-bills as part of their liquid asset buffers, as well as to manage short-term liquidity. However, in deciding whether to hold T-bills they will compare these with other available short-term securities or investments, including reverse-repo, where price (for example based on the spread to SONIA), and liquidity will be determining factors. Leverage Ratio constraints can be a further consideration, noting that central bank reserves are exempt and may therefore be preferred over T-bills. Similarly, **other monetary financial institutions**, such as commercial banks and building societies, invest in T-bills as part of their liquidity portfolios or statutory liquidity buffer requirements.

Bank repo desks will often compare T-bill pricing with similarly termed repo. Particularly where they have cash to invest, T-bills become an economically attractive alternative to reverse-repo, and with the added appeal that outright instruments are easier to get off balance sheet than repo, if required.

Central banks may invest their sterling foreign exchange reserves in the T-bill market.

Dealer banks (GEMMs and TBPPs) will hold T-bills in inventory following auctions, which they will look to distribute to their clients in the secondary market. This becomes more attractive from a carry perspective when the money market curve is positive.

¹ IMMFA: <https://www.immfa.org/market-statistics/immfa-aum.html>

² UK DMO: <https://www.dmo.gov.uk/data/treasury-bills/treasury-bill-issuance-and-stock/>

ICMA would concur that currently the primary investors in UK T-bills are commercial banks, including building societies.

Potential for new investment and investors

ICMA identifies several potential sources for increased or new investment in an expanded UK T-bill market.

Money Market Funds: As explained above, PDCNAV MMFs are required to invest in short-dated government securities. This is largely in the form of reverse-repo of gilts, however, mainly due to the limited supply, low liquidity, and often relatively high cost of T-bills. A deeper primary pool and improved secondary market liquidity for UK T-bills would likely see increased demand from this source. This should also be viewed from the potential to expand the sterling MMF segment, not least as a potential retail investment vehicle.

Retail: Retail has the potential to be a major investor segment in UK T-bills (and the UK government bond market more widely). We explore the potential and likely basis for this further in *Section B (Qs 6-8)*, along with recommendations to support the growth of retail participation.

Client funds held by fiduciaries (such as solicitors) could invest in UK T-bills (either directly or indirectly through MMFs) as an alternative to bank deposits.

Stablecoins: The development of the sterling denominated systemic stablecoin market, as anticipated by the Bank of England in its November 2025 consultation paper,³ could provide a meaningful and steady source of demand for UK T-bills. However, the extent of this demand is likely to be contingent on a number of factors. Currently, around 99% of the outstanding stablecoin market is USD denominated,⁴ and are largely used as a medium of exchange within the crypto asset ecosystem.⁵ Systemic demand is therefore likely to be dependent on both the appeal of stablecoins as a cost effective alternative to fiat, say for cross-border payments, and the need for currencies beyond USD. A further consideration is likely to be the design of the regulatory framework around sterling stablecoins, and how restrictive or uncompetitive this may be (*see response to Q4.*)

Bank demand for eligible collateral: T-bills are already eligible for the Bank of England's Sterling Monetary Framework (SMF), with the lowest haircut (0.5%). They are also eligible for DBV (delivery-by-value), including in the Bank's Euroclear Delivery-versus-Payment DBV schedule (again with the lowest haircut). However, they are seldom used as repo collateral due to their relative scarcity and supply-related illiquidity. Given that Euroclear is amending its prioritisation algorithm for collateral allocated to SMF facilities, such that lowest haircut collateral will be allocated first, which will make UK T-bills a more economically attractive form of collateral, from a haircut optimisation (and so cost) perspective, for those actively using DBV functionality in the repo facilities (currently 25% of total volumes). This change is scheduled to be implemented in April 2026.

For the same reason of relative scarcity, UK T-bills are generally not used as gilt general collateral in the inter-bank market. An increase in the supply of T-bills could help, along with some gentle suasion from the authorities.

³ <https://www.bankofengland.co.uk/paper/2025/cp/proposed-regulatory-regime-for-sterling-denominated-systemic-stablecoins>

⁴ <https://corporate.visa.com/en/solutions/crypto/stablecoins/stablecoins-and-the-future-of-onchain-finance.html>

⁵ <https://www.bis.org/publ/bppdf/bispap141.pdf>

Digital T-bills: The digitalization of T-bill issuance (as natively digital assets or tokens) could bring new demand from investors seeking the benefits of transacting and settling via distributed ledger technology, with associated benefits and efficiencies. This could also include retail investors (*see response to Section B*). Digital T-bills could be a natural supplement to the projected Digital Gilt Instrument (DIGIT), and may even be more marketable due to their short-term nature.

Green T-bills: While sustainable and green issuance is normally associated with longer maturities (which are more aligned with the underlying investments or projects), recent years have seen increased investor interest in short-dated investments which meet the criteria for a green or other sustainability label. This has been notable in the commercial paper market (both in the form of use-of-proceeds project-based and sustainability-linked CP).⁶ Green T-bills, however, similar to green bonds, would be linked to a pool of eligible government expenditures that meet the use-of-proceeds requirements. A good example is Austria's groundbreaking €1bn green T-bill, which saw x2.7 cover and 2bps of "greenium".⁷ Such bills would likely garner both institutional and retail interest, not least from green or ESG focused money market funds, supporting London's role as a centre for sustainable finance.

3. What other financial instruments might investors view as substitutable with T-bills, and what factors influence the attractiveness of T-bills relative to these alternative investments?

When considering the potential for new sources of demand for an expanded T-bill market, this needs to be balanced against the expected consequences for alternative investment vehicles for which T-bills could be considered substitutes.

At the institutional level, this is likely to impact central bank reserves, interbank deposits, gilt reverse-repo, commercial paper and certificates of deposit, and short-dated gilts. Key considerations in determining substitutability include price, maturity, liquidity, and balance sheet impact (including leverage, capital, and liquidity ratios).

For wholesale investors, T-bills provide a secure asset for short-term investments and reserves for parties without access to central bank accounts, and for those investing amounts above the deposit insurance threshold.

T-bills in particular can be an effective alternative to the repo market as a short-term cash management instrument, particularly for non-banks. Investing in T-bills negates the need for onerous documentation such as the GMRA, it simplifies counterparty credit risk management (essentially settlement risk), and liquidity is less dependent on bank balance sheet availability, which is often subject to constraints (such as over reporting dates).

For banks, changes to remuneration on central bank reserves, including the introduction of tiering, would disincentivize the holding of excess reserves. Ordinarily these would be channelled into the repo market, although a deeper and more liquid T-bill market would almost certainly become an important alternative option in such a scenario.

At the retail level, T-bills would be a very direct and higher-yielding substitute for bank deposits. A significant drain on bank deposits into the T-bill market could however have knock-on effects for bank lending, including mortgage lending, affecting both rates and product availability. The wider

⁶ See: [The role of commercial paper in the sustainable finance market](#), ICMA, October 2024

⁷ <https://www.reuters.com/business/sustainable-business/austria-raises-1-bln-euros-first-ever-green-t-bill-2022-10-18/>

economic and social impacts of this may need to be considered. It could also put upward pressure on the rates that banks have to pay on deposits, so impacting their profitability.

4. What current and/or prospective future regulatory requirements could affect demand for T-bills (including any changes in demand for GBP-backed stablecoins, given the Bank of England's and Financial Conduct Authority's proposed backing asset requirements for these products)? To what extent do these factors impact different types of investors in different ways?

ICMA has identified a number of regulatory requirements that could affect the demand for T-bills.

Money Market Fund Regulation

Following FCA CP23/28: *Updating the regime for Money Market Funds* (December 2023),⁸ the market is bracing itself for the final FCA proposals in early 2026. Similarly, EU proposals for MMF reform are expected sometime in 2026, following the Commission's review in 2023,⁹ noting that more than 80% of GBP MMF assets under management are EU domiciled.¹⁰

Any increase in the liquidity buffer requirements for Low Volatility Net Asset Value (LVNAV) funds would inadvertently increase the demand for T-bills. As already highlighted, there is currently insufficient T-bill stock to meet the demand from PDCNAV MMFs. Secondary market availability and pricing would also need to be an important consideration in any calibration of LVNAV liquidity buffers.

Leverage Ratio

An exemption for UK government debt under the Leverage Ratio would most likely fuel demand for UK T-bills as an attractive alternative to central bank deposits. While members do not consider such an exemption likely, at least not under benign market conditions, it may be a discussion point in the upcoming Bank of England consultation.

Regulatory framework for sterling-denominated systemic stablecoins

As discussed in the *response to Qs 1&2*, it is difficult to estimate the potential demand for sterling stablecoins, and therefore the related demand for short-term securities required to back these, noting that T-bills would likely be an instrument of choice, subject to adequate supply and liquidity. However, two elements of the framework are likely to have a direct impact.

Firstly, the specified maturity profiles of eligible government debt assets. While in general shorter durations of securities backing the stablecoins will help to reduce volatility, a more flexible maturity profile would open up a wider pool of T-bills as backing assets, particularly if the government were to extend the maturity profile of its T-bill issuance (*see responses to Section E*).

Secondly, the requirement for backing assets to be held as unremunerated central bank deposits. The current proposal is for this to be 40%. While the ability to back stablecoin issuance with 60% of interest-bearing assets should still be appealing, this becomes less commercially viable as interest rates move lower. Furthermore, the incentive to create sterling-denominated stablecoins may also need to be viewed through a competitive lens with other currencies such as the euro and other EU

⁸ <https://www.fca.org.uk/publication/consultation/cp23-28.pdf>

⁹ https://finance.ec.europa.eu/document/download/26bd5442-fe36-436d-a11b-82857953d170_en?filename=230720-report-money-market-funds_en.pdf

¹⁰ <https://cranedata.com/subscribers/login/?next=/archives/all-articles/10925/%3Futm>

currencies (where the unremunerated central bank reserve requirement is 30%)¹¹ and the USD (no requirement).¹²

Cleared margin rules

T-bills are attractive as margin since they qualify as high quality liquid assets (HQLA), have short maturities and low duration risk (requiring lower haircuts), can be easy to value, and could be extremely liquid. An increase in the depth and liquidity of the UK T-bill market could be viewed as enhancing collateral efficiency and fluidity.

Relatedly, client segregation rules also increase the demand for gross collateral, while reducing the scope for collateral re-use. Again, from the client perspective, short duration HQLA, such as T-bills, support collateral optimization.

Non-UK concentration limits

The ability for non-UK entities to hold UK T-bills, along with UK government securities more broadly, may be restricted by limits imposed on holdings of foreign assets imposed by non-UK jurisdictions. One example is US Regulation K (12 CFR 211).¹³

Tax Laws

The taxation treatment of UK T-bills will also have a significant impact on demand, as well as that of short maturity gilts. Currently, discount-related capital gains from T-bills are treated as income for UK tax purposes, while coupon-bearing gilts are exempt from capital gains tax (with coupons being treated as income). Accordingly, this makes low-coupon gilts with similar duration, which trade at deep discounts to par, comparatively more tax-efficient than T-bills.

However, to keep this in perspective, the problem is limited to aged gilts, issued during periods of very low interest rates (such as during post-pandemic quantitative easing), that have subsequently rolled down the curve while rates normalized. In the current environment, ICMA estimates the stock of “competing” short-dated gilts to be around £70bn, with much of this maturing in October 2026.

5. Do you have any comments on current and/or prospective interactions between the primary and/or secondary market in T-bills and other short term money markets (including unsecured markets) or the Bank of England’s Sterling Monetary Framework (SMF) facilities?

As alluded to in *the response to Qs 1&2*, from a haircut perspective, T-bills are the most optimal government debt optimal for allocation into the Bank’s SMF facilities. Therefore, we would expect to see a change in the composition of the short-term repo (STR) facility as an outcome of an expanded T-bill market, with a shorter weighted average maturity.

Perhaps more significantly, a meaningfully larger and more liquid T-bill market may directly interact with monetary policy transmission, in a positive way. Regular large issuance could potentially help in setting a floor for rates, absorbing excess reserves, similar to the role of the Overnight Reverse Repo (ONRRP) facility in the US, and more effective than the lesser-used Bank of England Operational Standing Facility (OSF), which serves largely as a backstop. Naturally, this will require close coordination with the Bank, given the potential “corridor effect” of the T-bill market under certain reserve conditions.

¹¹ https://www.ecb.europa.eu/press/financial-stability-publications/fsr/focus/2025/html/ecb.fsrbox202511_05~63636227b4.en.html

¹² https://www.dfs.ny.gov/industry_guidance/industry_letters/il20220608_issuance_stablecoins

¹³ <https://www.law.cornell.edu/cfr/text/12/part-211>

B: T-bill investor base (retail)**6. What existing measures are there which may promote investment in T-bills by retail customers? Are these widely taken up?**

ICMA is unaware of any existing measures that directly promotes investment in UK T-bills by retail customers.

7. What measures could the government take to incentivise or promote investment in T-bills by retail customers? How might this affect retail investment in gilts?

ICMA believes that the key initiatives that need to be taken to promote retail investment in UK T-bills successfully are: (i) investor education; (ii) ease of access; and (iii) regular and predictable supply.

Investor education

The level of financial literacy among retail investors and most households in the UK, as with many other developed economies, is very low. While initiatives such as National Savings and Investment (NS&I) and Individual Savings Accounts (ISAs) have helped many retail investors to venture into the world of securities market investments, it is a fact that most household savings remain in low or unremunerated bank deposits, while ISA investments are largely in the form of cash (*see Figure 2*). More could be done to raise the popular understanding of financial markets, different securities and investment vehicles, along with their associated risk profiles, the importance of balanced and time-targeted investing, as well as tax implications and advantages of different products and strategies.

T-bills are an efficient and higher-yielding alternative to bank deposits, with low credit and market risk, and potentially good liquidity. This is recognized in other jurisdictions, such as Italy, where as much as 8% of the government debt market, including T-bills, is held directly by domestic retail investors.¹⁴

Figure 2: Sterling Retail Deposits & ISAs

Metric	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Sterling Retail Deposits	£1.56T	£1.63T	£1.67T	£1.72T
Total ISA Market Value	£687B	£741B	£725B	£871B
<i>Total Cash ISA Subscription</i>	£37B	£31B	£42B	£70B
<i>Stocks & Shares ISA Subscription</i>	£34B	£34B	£28B	£31B

Source: Bank of England Money & Credit and Bank of England Money & Credit

Ease of access

The ability for households to access the T-bill market, both through primary auctions and secondary trading, is critical. This could be said of access to financial securities more broadly, where commercial banks, for instance, do not provide investment accounts. Moving funds between bank deposits and

¹⁴ <https://thedocs.worldbank.org/en/doc/e0bd4e664be1e51804f9d84979d2102f-0430012022/related/IRDMC-2022-session-3-Italy.pdf>

linked investment accounts within the same financial institution would be the simplest route into securities markets for retail investors.

A dedicated DMO platform for retail access for T-bill investments (and possibly UK government debt more widely) could serve this objective well. For example, something along the lines of the US Treasury Direct platform.¹⁵ Ideally this should allow investors to purchase T-bills directly through auctions as well as providing tight two-way secondary market pricing and execution in “retail friendly” size. But this would need to be backed up by easy and efficient custody.

Cost will also be an important consideration for enabling retail access, ideally minimizing execution fees as well as any associated settlement or custody fees.

While direct access is important, there should also be avenues for indirect retail investment into UK T-bills, such as through MMFs or Exchange Traded Funds (ETFs). As well as creating diversity, these types of vehicles help minimize costs, investment management, and roll-over risk.

Supply

Given the short-term nature of T-bills, it will be important to ensure that investors can feel confident of regular and predictable issuance, both in terms of timing and quantity, particularly in order to manage the reinvestment of maturing holdings. Reducing roll-over risk will be equally important for retail and wholesale investors.

Additional considerations

There are a number of other considerations that could enhance the UK’s T-bill issuance to entice wider retail participation. As flagged in the *response to Qs 1&2* in the context of wholesale demand, green or digital T-bills could have particular appeal for certain subsets of investors.

Similarly, as flagged in the *response to Section E*, additional, longer maturities, could help meet the needs of certain investors, as well as the introduction of floating-rate (eg SONIA-linked) T-bills.

Finally, tax incentives for retail investors can be highly inducive, as exemplified by the 2023 Belgian government “retail bond” issuance.¹⁶

8. What risks to the government or the market could arise if the government were to take measures to incentivise or promote retail investment in T-bills and how would these best be mitigated?

As discussed in the response to Q3, retail access to T-bills would be a direct competitor to bank deposits, which in turn could have impacts for bank lending, including business and mortgage lending, with potential economic and social consequences. There could also be possible further implications for banks’ liquidity and profitability. However, this would likely require a significant drain on overall deposits, which would seem unlikely.

¹⁵ <https://www.treasurydirect.gov/>

¹⁶ <https://www.keytradebank.be/en/our-blog/state-bonds-term-and-saving-accounts?>

C: Primary market demand

9. What are the most important factors which influence demand for T-bills in the primary market (including but not limited to yield, maturity, expected changes in the yield curve, monetary policy, and regulatory requirements)? How might different types of investors rank the importance of these factors?

See response to Q10.

10. What structural and/or regulatory factors affect, or could affect in the future, primary market activity in T-bills on both the demand and supply-sides? To what extent do these factors impact different types of investors in different ways?

Response to Q9 & Q10

Much of this has already been answered in the response to the previous questions. It is also not clear why primary and secondary market demand would be considered separately given that they are essentially co-dependent. Without a robust primary market, there is little scope to create the structure to support secondary market liquidity. And without good secondary market liquidity, primary market liquidity will be negatively impacted both in terms of demand and price (if only in the form of bid-ask skew; see Figure 4).

In this respect, perhaps the most important consideration here is the consistency and predictability of primary supply, both in terms of scheduled auctions and quantity. Currently, T-bill issuance tends to be driven more by HMT cash management requirements, adjusting to any financing shortfalls or overshoots. This makes anticipating future supply difficult for investors. What will be key to underpinning the success of any expansion of the UK T-bill market will be to put issuance on par with other issuance across the gilt curve in terms of the hierarchy of government funding. Protecting T-bill issuance in this way will be critical in fostering demand.

From a demand perspective, it may be worth noting the interplay with rate expectations and investor behaviour around Bank of England Monetary Policy Committee (MPC) meeting dates. Demand for shorter-dated (1-month) T-bills tends to increase just ahead of MPC meetings, and then switches into longer (3-month) T-bills immediately following (when there is relative certainty of short-rates until the next meeting in six weeks' time). This suggests that rate certainty and low price volatility are an important consideration for many investors; a factor that may justify the introduction of floating-rate T-bills, particularly for longer maturities.

Otherwise, creating the right framework to support secondary market liquidity will be key in underpinning primary demand, which is addressed in the *responses in Section D*.

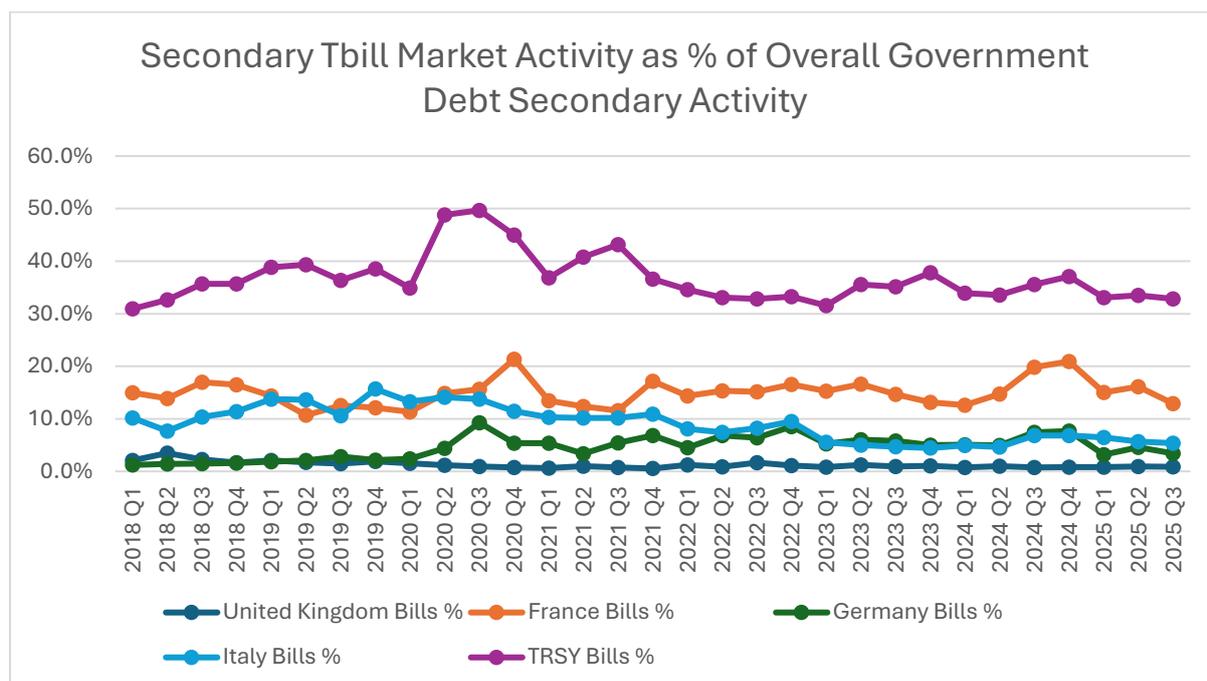
11. How does T-bill primary market activity in the UK compare to peer sovereign markets and what factors explain any differences?

ICMA believes that in terms of relative size of government debt markets, France and Italy provide suitable benchmarks for deep, liquid T-bill markets, and to a lesser extent Germany. Meanwhile, the US T-bill market is perhaps the most replicable model, although all provide useful lessons on which the UK can draw. Again, primary and secondary market models are deeply co-dependent, so much of the below is equally relevant to the questions posed in *Section D*.

Relative market size

Firstly, all of these above-mentioned markets are larger in size than the UK T-bill market, both in terms of the proportion of notional value of outstanding government debt as well as the percentage of overall government debt secondary market volumes. In the US, for example, T-bills form around 21% of outstanding government debt,¹⁷ while in France this is approximately 7%.¹⁸ In the UK, T-bills are barely 3.5% of the overall stock of government debt.¹⁹ (See Figure 3 for relative secondary market volumes.)

Figure 3: T-bill secondary market volume as percentage of overall government bond market



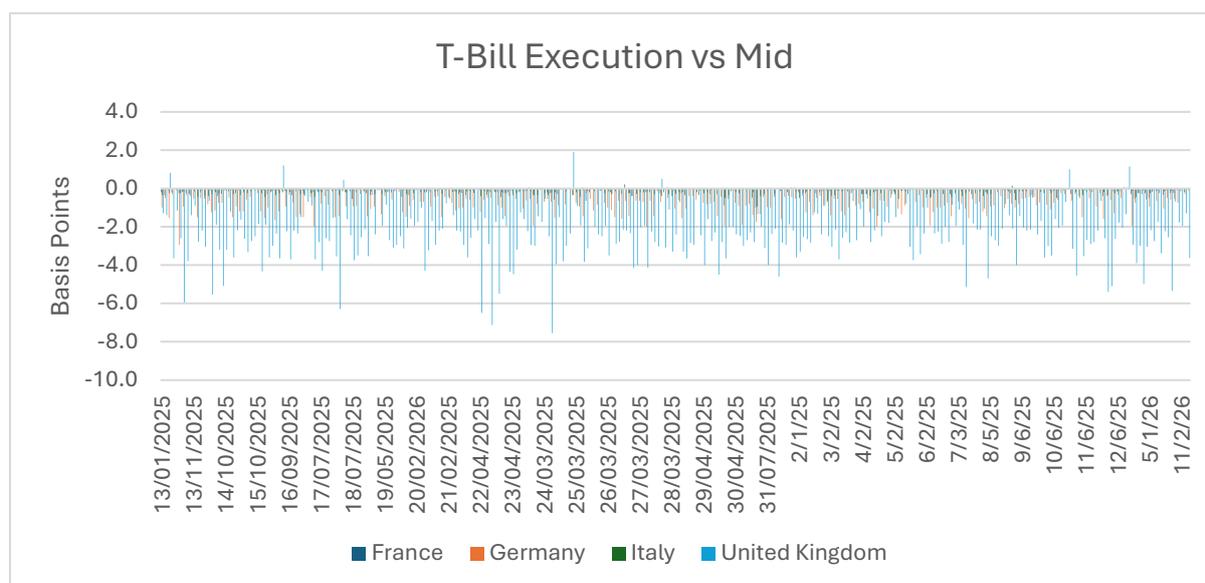
Source: Tradeweb

¹⁷ <https://www.sifma.org/wp-content/uploads/2025/09/SIFMA-Research-Quarterly-Fixed-Income-O-3Q25.pdf>

¹⁸ <https://www.aft.gouv.fr/en/node/452>

¹⁹ <https://www.dmo.gov.uk/data/pdfdatareport>

Figure 4: T-Bill execution vs Mid



Source: Tradeweb

Figure 4 illustrates the relative skew in UK T-bill secondary market liquidity compared to its peers. The Tradeweb data calculates the weighted average yield spread between the bid-ask, mid-price and actual execution. The spread could be interpreted as a gauge of relative secondary market illiquidity (the wider the spread, the less liquid).

Primary Dealer models

There is no “one size fits all” primary dealer (PD) model for supporting T-bill auction distribution and secondary market liquidity, but there are perhaps key initiatives and incentives that could help in the design of a UK model, whether based around the existing GEMM structure, or possibly expanded to include other TBPPs.

DMO feedback

In the French model, T-bill, or BTFs (*Bons du Trésor à taux fixe et à intérêts précomptés*), PDs (*Spécialistes en Valeurs du Trésor, or SVTs*) have a regular weekly call with the DMO (*Agence France Trésor, or AFT*) ahead of auctions. This is an opportunity for SVTs to share observations on client demand, secondary market activity, and liquidity conditions. This helps to inform the DMO in its expectations for auction demand, as well making any adjustments to the supply of particular issues. This can also prompt taps in old issues that may be experiencing specialness. This informal exchange of information is beneficial to dealers, investors, and the AFT alike.

Top-up allotment

Italian BOT (*Buoni Ordinari del Tesoro*) PDs, which are part of the broader Italian government debt Primary Dealership, or “specialists” (*Specialisti in Titoli di Stato*), are required to participate in primary auctions, as well as to provide secondary market liquidity on the *Mercato Telematico dei Titoli di Stato* (MTS) trading platform. As part of the incentive to do so, specialists have exclusive right to participate in supplemental, non-competitive top-up auctions; usually representing an additional 10% of the amount offered in the primary auction, and settled at the clearing price for the original auction. The extent to which they can utilize this “free” option is determined by their relative

historical primary and secondary market activity. In addition, specialists may be granted exclusive access to T-bill buybacks and exchanges.

Repo facility

One of the key initiatives to support primary and secondary market liquidity is the ability for liquidity providers (PDs or their equivalent) to short securities without undue penalty. An important, and potentially profitable, function of dealers is to show offers and meet purchasing demand from their clients, even if they do not hold the underlying inventory, with a view to buying it later. While dealers look to cover their short positions, they are able to make good on delivery by borrowing the securities temporarily. This is fundamental to the concept of liquidity and immediacy, particular in debt markets. A DMO repo or lending facility to make available specific T-bill lines to borrow on demand is critical (similar to the gilt market).

Importantly, the terms under which dealers borrow specific T-bills should not be punitive, whether in terms of price (ie the repo rate as a spread to GC), haircuts (alignment with the SMF would seem reasonable), tenor (some flexibility to borrow for term should be provided) or roll-over (pair-offs should be possible, along with partial returns). With regards to pricing, it should be remembered that we are talking about very short duration securities, where the impact of repo funding on carry is disproportionate compared to longer-dated gilts. Perhaps a good point of reference is the US T-bill facility which provides dealers with borrows around 5bps through the GC rate. Given that financing costs, after volatility, are one of the most important factors in determining dealers bid-ask spreads, this will also be imperative in ensuring a tightly quoted secondary market.

The supply of borrows from the DMO could come either from any inventory held back for market maintenance purposes, or could be in the form of “phantom repo”, whereby additional supply is temporarily increased for the purpose of meeting repo demand without adding to public debt (as already exists in the case of the DMO’s gilt lending facility).

Such a repo facility would not only assist dealers in their liquidity provision, but it would also help to underpin a functioning “specials” market, which could help to emolliate any extreme specialness or price dislocations, and support price efficiency and a smooth short-term curve.

Enforceability

The degree to which PDs or equivalent liquidity providers are required or incentivized to support primary and secondary liquidity varies across markets, and ICMA would not prescribe a particular model for the UK context. This also depends on the strategic objectives of the relevant Treasury and DMO and the relative importance of supporting issuance for different maturities. For example, in Europe, long-term debt issuance is prioritized over shorter maturities, while in the US, the T-bill market has become central to monetary policy operations. This can also vary over time, as well as being dependent on market conditions and evolving government financing needs.

The below is an outline of the various PD models for supporting T-bill markets.

Market	Primary obligations	Secondary obligations	Enforcement
IT	Minimum participation required	Formal quoting (MTS)	Strong
FR	Active participation expected	Formal quoting, but less strict than for OATs	Strong
DE	No strict minimum participation	Softer liquidity expectations	Moderate
US	Meaningful participation expected	Broad market-making expectation	High but informal

12. Is there a limit on the extent to which primary market demand for T-bills can be maximised and, if so, what are factors that drive this?

The responses to the previous (and subsequent) questions outline ICMA's perspectives and recommendations on how to optimize demand for UK T-bills, as well as highlighting some of the potential limitations. The ultimate constraint, of course, will be the overall demand and investor appetite for UK government debt, as well as pricing and credit considerations along the curve. Inherent in this is the perception of sterling as an investible asset. This is beyond the predicative capabilities of ICMA.

D: Secondary market activity (cash and repo)

13. What structural and/or regulatory factors affect, or could affect in the future, secondary market activity in T-bills on both the demand- and supply-sides? To what extent do these factors impact different types of investors in different ways?

See response to Q14.

14. To what extent is there potential for a larger amount of secondary market activity in T-bills, including in outright transactions? How might this be facilitated by the authorities?

Response to Q13 & Q14

The factors that are likely to affect demand in the secondary market are largely the same as those that drive primary market demand. The two are largely inseparable. We would therefore point to the responses to previous questions, in particular *Qs 1&2, Q4, and Qs 9&10*.

In terms of secondary market activity, this should largely reflect with primary market supply, and corollate closely over time. Where secondary market activity may become relatively more prominent is in times of heightened volatility or market stress. Under such scenarios, holders of T-bills may seek to liquidate positions to realize cash (for example in order to meet fund redemptions or margin requirements), while investors in risk assets may seek safe harbour in short-term government securities in a risk-off flight to quality. This is where a robust and resilient market structure for secondary market liquidity provision comes into its own.

The authorities have an important role to play in ensuring that the framework for supporting secondary market liquidity is fit for purpose. As already outlined, key recommendations for designing this are:

- A recognized Primary Dealer arrangement, or equivalent, with some expectations of and incentives for secondary market liquidity provision.
- A “dealer-friendly” lending facility for individual lines of T-bills that facilitates short-selling in the line of liquidity provision.

Further interventions to support secondary market liquidity could include:

Calibrated market transparency

Similar to the arguments put forward for increased post-trade transparency in bond markets more widely, increased visibility of market activity, particularly in “real-time”, could have significant benefits for liquidity: supporting price discovery, valuations, and transaction cost analysis, so underpinning investor confidence. Adding UK T-bill markets (pre-trade) to gilt quotes on Bloomberg’s “FITS” page (similar to the US T-bill tab) would also be helpful for institutional investors in this respect.

In the case of retail investors, a reliable source of pre-trade price transparency would also be important.

However, similar to the considerations around post-trade reporting in the wider bond markets, there would likely be an important role for deferrals and appropriately calibrated thresholds to protect liquidity provision.

Capital relief

While there is no precedence that ICMA is aware of, providing capital relief (in the form of a 0% Leverage Ratio treatment) for PDs or their equivalent in their trading books would encourage the holding of inventory to service client demand. This could be particularly impactful in the (normal) case of negative carry for holding short-term instruments, or during times of market stress when balance sheet becomes constrained (noting the relatively low return on capital from trading high quality, short duration assets).

Labelling

Formal recognition as a government endorsed market-maker in its debt provides significant kudos and credibility with existing and potential clients. The value of this should not be overlooked.

15. To what extent are T-bills used in General Collateral (GC) repo, and to what extent is there a repo market for specific T-bills?

See response to Q16.

16. To what extent is there potential for greater inclusion of T-bills in GC repo and/or a repo market in individual T-bill securities? How might this be facilitated by the authorities?

Response to Q15 & Q16

Please refer to the *responses to Qs 1&2, 5, 11, and 13&14*.

UK T-bills are very difficult to short due to their inherent buy-to-hold nature and lack of secondary market liquidity.

The key intervention from authorities in support of repo, and outright, secondary market liquidity would be a “dealer-friendly” lending facility to PDs or their equivalent.

17. There are typically 26 T-bills in issue at any given time (excluding some T-bills issued outside of weekly tenders). What is the minimum issuance size of individual T-bill ISINs at which you would consider investing in the secondary T-bill market? Would a change in the average issuance size of individual T-bill ISINs support secondary market activity?

As the question infers, the outstanding size of individual lines of T-bills is equally an important consideration as the overall outright and relative size of the T-bill segment of government debt.

Given the relative liquidity and tight secondary market pricing of Italian and French T-bills, ICMA would recommend targeting similar sized outstandings for individual ISINs. This would suggest somewhere in the region of £7-8bn per line, before allowing them to roll-down the curve and subsequently becoming fungible with equivalent shorter-maturity issuance.

The government should, however, retain the option to tap off-the-run issues in the case of idiosyncratic demand-supply imbalances and related price and repo distortions.

18. How does T-bill secondary market activity in the UK compare to peer sovereign markets and what factors explain these differences?

Please refer to the *responses to Qs 11 and 13&14*.

E: Maturities of T-bills offered at tenders

19. Could the introduction of T-bills with different maturities at tenders attract new structural demand? If so, what new maturities would be sought after, and what would be the sources and scale of this new demand? How sustainable might any such demand be over the longer term?

A broader range of maturities would likely be an important factor in driving increased demand for UK T-bills. In particular, and consistent with other comparable debt markets, ICMA would strongly advocate for a 12-month T-bill, in addition to the current tenors. The availability of longer maturity short-term high quality liquid assets helps banks to manage better their liquidity ratios, while a greater variety of maturity profile would provide investors with more options for liquidity management, while also affording them with a higher degree of flexibility to express interest rate views across the curve.

ICMA would suggest, as an initial consideration for further consultation:

- Weekly new issues in 1-, 3-, and 6-months.
- Weekly taps in a 12-month bill, with a new issue each month.
- Standardized maturity dates to ensure fungibility as bills roll down the curve.
- ICMA would further propose the periodic issuance of a 12-month floating rate bill (perhaps monthly).
- Use of standardized maturities to ensure fungibility as T-bills roll down the curve.

Assuming a target total issuance size of £8bn per ISIN, this would result in an eventual total outstanding stock of 32 ISINs with a total notional value of £448bn (or around 15% of the current level of total UK government stock), with regular weekly issuance of £26bn across four maturities.

Alternatively, another suggestion could be to build up size in the longer tenors on a gradual basis. For example:

- Weekly new issues in 1-month bills.
- 3-month bills: tap an existing line weekly to build to target size over approximately 1 month; open a new 3-month line once the prior line reaches the desired size.
- 6-month bills: issue a new line, then tap weekly for one-to-two months before rotating to the next new 6-month line.
- 12-month bills: tap an existing line weekly or biweekly for two-to-four months; open a new 12-month line when the prior line has reached target size.
- Again, use of standardized maturities to ensure fungibility as T-bills roll down the curve.

In this scenario, the UK could achieve a similar total level of stock, but with fewer individual lines, and so larger issues, which could be beneficial from a secondary market liquidity (and so dealer balance sheet) perspective.

However, these are just initial thoughts based on members' sense of likely absorbable demand and cross-referencing peer markets. Ultimately, ICMA recommends that the expansion of the market be informed by PDs or their equivalent, with all the necessary primary and secondary market structures in place, and executed gradually, rather than as a pre-announced "big bang" (see *response to Q.33*). This should also allow the government to respond to demand for different tenors, which may change during the rate cycle, or in times of heightened volatility or stress (see spikes in secondary volumes for US, German, and French T-bills in the first half of 2020 in *Figure 3*). Here feedback from PDs, as well as relative pricing (eg SONIA spreads) will be helpful in gauging any potential skew in issuance on certain points of the curve (which would also help to reduce government financing costs).

20. To what extent could the sale of T-bills with a wider range of maturities at tenders displace demand for (i) T-bills at existing (i.e. one-, three-, and six-month) maturities and/or (ii) gilts with similar maturities available in the secondary market?

See response to Q21.

21. What other issues or risks might be associated with the sale via tenders of T-bills with different maturities?

Response to Q20 & Q21

As already described, ICMA does not believe that a wider range of maturities or more frequent tenders would displace demand for specific maturities or ISINs, nor would this significantly impact on older gilts that roll down the curve (see *response to Q4* with respect to potential tax considerations in this scenario).

Different investors will seek maturities that best suit their specific liquidity management or requirements or investment mandates (such as bank treasuries, MMFs, or UCITs), while some will be more focused on relative value opportunities across the curve (usually investors with more flexible mandates such as hedge funds or sovereign wealth funds).

As previously described, interest rate expectations may also play a role in driving demand at certain points on the curve (see *response to Qs 9&10*). This also justifies exploring the feasibility of a longer-dated floating rate T-bill.

22. How long would it take for you to consider T-bills with different maturities as part of your investing strategy? What lead times might TBPPs and investors require before T-bills with different maturities could become a part of their investing strategy?

This largely depends on the investor type and whether they already have a mandate and credit limit to trade or invest in the UK T-billmarket.

In the case of GEMMs and existing TBPPs, this should not present any issues. For existing investors in UK T-bills, it may be a case of internal risk management or client mandate revisions to allow for an increase in total risk or duration exposures to the asset class. For completely new investors, the same considerations are likely to apply, but possibly with a more rigorous and lengthy due diligence procedure.

In short, it is difficult to estimate. But as a general response, it would be reasonable to expect such changes in strategic remit, where required, to take months, rather than years.

With this in mind, it may be important for the UK government to communicate its plans to expand the UK T-bill market, and the commitments and structures underpinning this, as far in advance as possible. This is also one of the considerations underlying ICMA's recommendation to build out the expansion of the T-bill market steadily, rather than taking a "big bang" approach (see *response to Q.33*).

F: Expectations and requirements placed by the government on T-bill market participants

23. If any expectations around activity or participation in the T-bill primary market were to be introduced (for example, this may include minimum primary market share requirements), what types of firms should be subject to them and why?

See response to Q 27.

24. If any expectations around activity or participation in the T-bill secondary market were to be introduced (for example, this may include minimum secondary market share or a requirement to make two-way prices in T-bills at all times), what types of firms should be subject to them and why?

See response to Q 27.

25. What would be the effect on T-bill secondary market liquidity if the government was to introduce any expectations of activity/participation in the T-bill market?

See response to Q 27.

26. What other issues or risks might be associated with the introduction of expectations or requirements around activity in the primary T-bill market?

See response to Q 27.

27. What other issues or risks might be associated with the introduction of expectations or requirements around activity in the secondary T-bill market?

Response to Qs 23-27

These questions are largely addressed in the *response to Q 11*.

A framework for dealer support that underpins primary and secondary market activity, as with any government debt issuance, is fundamental. The extent to which this is mandated versus incentivized, or the degree of formalization of arrangements or expectations can vary. There is no optimal model, and largely this will also be determined by established market norms and practices and regulatory culture. All have their merits and drawbacks, but ICMA instinctively feels that the UK should most naturally adopt something akin to the US framework, with high expectations and less formality.

G: DMO repo market activity

28. To what extent would T-bill primary and secondary (including cash and repo) market activity be supported if the DMO were to provide a standing repo facility for T-bills, which could ensure that TBPPs can access and deliver any T-bill at any time?

See response to Q 30.

29. What issues or risks might be associated with the introduction of such a facility?

See response to Q 30.

30. What other repo market activity could the DMO undertake to support the primary and secondary (including cash and repo) market in T-bills?

Response to Qs 28-30

As ICMA has highlighted several times in its responses so far, and most elaboratively in the *response to Q.11*, a standing repo facility in specific T-Bill ISINs accessible by PDs or their equivalent, on market friendly terms (rate, haircut, tenors, pair-offs), will be **critical** to the successful expansion of the UK T-bill market.

DMO activity in the T-bill repo market more broadly, whether as buyers of GC or lenders of specials in the open bilateral market, would also be welcomed as an additional source of repo liquidity, to the extent that it did not become market distortive or crowd out private market activity.

H: Other views

31. How would you expect market functioning to be affected by any changes in T-bill issuance, including in the context of their short duration?

See response to Q 33.

32. In your view, what is likely to be the most effective combination of potential reforms to effectively increase T-bill primary market participation and T-bill secondary market activity?

See response to Q 33.

33. Please share any other views you have about T-bills, including around the expansion and deepening of the T-bill market and associated costs, benefits, and risks.

Response to Qs 31-33

ICMA would expect strong demand for an expanded UK T-bill market, that included longer maturities and potentially more innovative sub-classes (including floating-rate, green, and digital), both from domestic and international investors. The resulting reduction in the overall weighted average maturity of UK government debt would also move it closer to that of its peers.

The potential for direct retail investment in UK T-bills is real, and economically compelling, given sufficient education and ease of low-cost access. ICMA would point to Italy's 8% retail component of government debt as a viable target.

While primary dealer arrangements do not need to be overly formalized, they do require incentives. Chief among these is likely to be the optionality of supplementary auctions, the kudos of dealer labelling, and the critical access to an economically attractive repo facility. A close relationship between the DMO and market makers (similar to France) will be an important part of this consideration.

In terms of risks, ICMA views the principal danger as being expanding too quickly without first taking the necessary steps to ensure that an operational primary dealer, or equivalent, framework is in place. Then, and only then, the government should look to build out its issuance gradually, perhaps over a 12-to-24-month horizon, with clear communication of its intentions.

On this basis, ICMA anticipates that the UK T-bill market will become not only a key channel of relatively low-cost UK government financing and a go-to product for secure short-term sterling investment, but also a source of economically efficient collateral, a valuable vehicle for enhanced low-risk returns to UK households, and a cornerstone of UK monetary policy transmission (and with this close coordination between HM Treasury, the DMO, and the Bank).

As one Taskforce participant pointedly elucidated on one of the calls in the formulation of this response: "What are they waiting for? Just do it!".

International Capital Market Association (ICMA)

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www.icmagroup.org

Contacts:

Andy Hill, Managing Director, Co-Head of Market Practice and Regulatory Policy, ICMA
andy.hill@icmagroup.org

Katie Kelly, Senior Director, Market Practice and Regulatory Policy; Secretary to the ICMA Financial Institution Issuer Forum (FIIF), the ICMA Corporate Issuer Forum (CIF), the ICMA Public Sector Issuer Forum (PSIF) and the ICMA Commercial Paper (and Certificates of Deposit) Committee (CPC)
katie.kelly@icmagroup.org

Alexander Westphal, Senior Director, Market Practice and Regulatory Policy; Secretary to the European Repo and Collateral Committee, ICMA
alexander.westphal@icmagroup.org