House of Commons

Treasury Committee

Oral evidence: The Work of the Debt Management Office, HC 496

Wednesday 24 June 2020

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Watch the meeting

Members present: Mel Stride (Chair), Mr Steve Baker, Harriett Baldwin, Anthony Browne, Felicity Buchan, Ms Angela Eagle, Mike Hill, Julie Marson, Siobhain McDonagh, Alison Thewliss.

Questions 1 - 72

Witnesses

I: Sir Robert Stheeman, Chief Executive Officer, Debt Management Office; Jo Whelan, Deputy Chief Executive Officer, Debt Management Office; Jim Juffs, Chief Operating Officer, Debt Management Office.

Examination of witnesses

Witnesses: Sir Robert Stheeman, Jo Whelan and Jim Juffs.

Q1 **Chair:** Welcome to the next session of the Treasury Select Committee's inquiry into the economic consequences of the coronavirus. I am very pleased to be joined today by a panel of witnesses from the Debt Management Office. I would ask them each to very briefly please introduce themselves to the Committee.

Sir Robert Stheeman: Good afternoon, I am Robert Stheeman. I am the CEO of the Debt Management Office.

Jo Whelan: Good afternoon, I am Jo Whelan, deputy chief executive of the Debt Management Office.

Jim Juffs: Good afternoon, my name is Jim Juffs. I am the chief operating officer of the UK Debt Management Office.

Q2 **Chair:** Welcome to everybody and thank you very much for joining us this afternoon. We will be asking questions member by member in sequence and, when we do, members will do their best to identify at least one member of the panel to whom they are directing their question. If a question is not directed to you and you are not included in that particular question, and you particularly wish to raise a point, please do not hesitate to raise your hand. I will endeavour to bring you in, albeit that, of course, we welcome correspondence from any of our panellists today. If there is something you want to tell us about after the session, please feel free to write in at that point.

We do not expect any Division or vote during this session, but it is possible that, around 4 pm, there will be a Division. In that event, I will draw our proceedings to a close at that point. If, around 4 pm, the Division Bells sound, that is the action I will take. Hopefully that will not happen and we will be able to go on until 4.30 pm or thereabouts.

Perhaps I could start with my first question, which I would like to direct to Robert. I would like to take you back, Robert, to a date that will be very clearly etched in your mind, 19 March, when the Debt Management Office came quite close to perhaps not having one of its auctions covered. I think the auction closed a couple of hours before the markets apparently seized up on that day. I wondered whether you could talk us through your analysis of what was happening at that point, perhaps also bringing in the actions that, as a consequence, the Bank of England took that day, a reduction in interest rates and an announcement of another £200 billion in quantitative easing.

Sir Robert Stheeman: You are right. On 19 March, we held an auction. It was a five-year auction. I believe it was the last auction of the previous financial year. It was fine; it was a successful auction; it went well. I think we sold £3.25 billion, nominal, of that particular gilt. There was a healthy cover ratio of nearly 2%. The average accepted price was perhaps slightly weaker than where the secondary market was on that day, but that was all fine and it was all orderly.

As you have indicated, in the hours afterwards, market conditions deteriorated. Now, they deteriorated in the gilt market, but I probably should point out that they were very fragile, at the same time, internationally as well. They had been that way, arguably, for a few weeks. In particular, during the previous 10 days or so, there had been what some people have referred to as a dash for cash. This was a sense that Governments across the world were going to need large amounts of financing and that it was, at that stage, unclear how things were going to be and what effect things such as homeworking would have on normal financial market functioning.

What we saw in the immediate aftermath of our auction was further instability. I should add that there had been instability already the previous week even in the US Treasury bond market, which is arguably the largest, most liquid and best functioning market in the world. It was beginning to affect other markets too, including ours. Liquidity began to dry up. Yields began to rise quite significantly, spiking higher in the hours afterwards, until the point that, as you correctly noted, to everyone's surprise, including ourselves, the Bank stepped in and announced both its rates cuts and the £200 billion QE programme. This had a very stabilising effect on markets in general.

Q3 **Chair:** Some people say that we have a Bank of England that clearly has its mandates, including an inflation target, and is meant to be entirely independent, but which has, for whatever reason, for example in this instance, stepped into this market and put out a lot of QE. To some, this appears to be the Bank acting to facilitate the Government's ability to borrow, which, whether that was its primary motivation or not, was the net effect of what happened, and this is really just one step away from monetary financing. What would your view be of that?

Sir Robert Stheeman: You may not be surprised to hear that, while I understand why people say that, I do not agree. Why do I not agree? It is not just the technical aspect that we are issuing in what we call the primary market and the Bank is pursuing monetary policy through QE in the secondary market. It goes beyond that. It is a matter of each institution pursuing very different fundamental objectives. Our objective is to finance Government and to raise the cash that is necessary for the Exchequer. The Bank's objectives are focused solely on monetary policy.

Now, I will not say that monetary policy is of no interest to us. It is of as much interest to us as it is to the entire market, but it is focused on, presumably, the transmission mechanism of QE and how that feeds through in monetary policy. That is very different from what we are doing. We usually set out, up to a year in advance, what the entire annual financing requirement is going to be. So far, we have not been able to do that this year. We also set out our plans according to a pretty clear and explicit calendar. The Bank, on the other hand, can make, and indeed does make, as we have seen, monetary policy decisions as it deems necessary.

These are two very, very different functions. I pointed out a moment ago the technical difference between what we are doing and what the Bank is doing. The Bank does not buy directly from the DMO. The Bank buys from the much wider market and it is a point that is worth emphasising.

Q4 **Chair:** In reverse order, your technical point is right, although, whether it buys directly or through the secondary market, in a sense, its effect would be similar in supporting your ability to raise the debt. You have rightly pointed out that you and the Bank of England have separate mandates. It is the case, in this particular example, that the action the Bank took may well have supported its own mandate, but it was also very helpful to you.

Say we ended up in a situation in months to come where, for some reason, inflation had spiked and the Bank decided that, in terms of its mandate, it could not pursue further QE and, in fact, might have to do things in an opposite direction, on both interest rates and QE. At the same time, you are being asked by Government to raise very substantial amounts of money. What then happens if you have problems in the marketplace?

Sir Robert Stheeman: In terms of the overall market, you will have a different dynamic where there are, potentially, if the Bank were so to choose, two sellers. That could, arguably, or probably would, have an impact on yields. For us, that is secondary because we always view ourselves, ultimately, as a price-taker. We will pay for Government debt at what, effectively, the going price in the market is, which we have to pay for any particular operation. We would like to see those costs low, but we are completely agnostic as to whether they are low or high, because our mandate is not to target an absolute level of yields. It is to sell the debt.

Q5 **Chair:** Understood—that is very helpful and very interesting. What would you do in the event that you did not manage to cover a particular auction? Are there emergency measures you could take? Maybe in that context, does the Ways and Means facility enter that element? Perhaps I am seguing a bit, but, on the Ways and Means, could you tell us a bit about how much use the DMO has made of it? Are you confident that it will be unwound and squared away, as I think the Government have been saying, by the end of the year? Can you talk to those points please?

Sir Robert Stheeman: It is important to say that there are absolutely procedures in place in the case of an uncovered auction. We have utilised them in the past. They are on our website. We have published market notices and the market itself is very familiar with those procedures. Effectively, the stock is created; we take that on to our books and will sell that stock at a later price. That is exactly what happened the last time we had an uncovered auction back in 2009.

I realise that uncovered auctions make headlines. I cannot deny that. From our perspective and the market's perspective, the market would view it purely as a technical imbalance in supply and demand at that point when an auction closes. Uncovered auctions, in some jurisdictions, are very frequent events. It is important to dispel that. It is nothing to do with the credit issue or the ability of any Government to raise funds. We do not even need to access the Ways and Means, which you mentioned, to make up any shortfall. We can do that normally through our cash management function, which is the other big function that the DMO has. I wanted to make that quite clear. We have had over 500 auctions since the last uncovered auction in 2009. It is not obvious to me that there is any reason why we should expect another one soon.

The Ways and Means has a very long history. The announcement back in April was, fundamentally, to reassure the markets that, if absolutely necessary, given the very volatile predictions for Government cash flows, on a very short-term and temporary basis, that facility is open to the DMO to use. I stress that it is on a very short-term and temporary basis only. That was made very clear in the announcements, by the Treasury, the Bank and us.

Ways and Means is a facility that has been in place for a long time. Some people may not be aware, but it gets used from time to time for very technical reasons. I think, if I am correct, we used it most recently in 2016. It can happen if there is something to do with a cash flow forecast that might not be 100% accurate. It gets corrected overnight. It is not a financing facility.

Q6 **Chair:** Are you able to comment on how much you are drawing on it at the moment and what the outlook for Ways and Means may look like over the rest of the year?

Sir Robert Stheeman: It is probably fair for me to comment in as much as—it may not be very well known, but this is in the public domain—the Bank publishes, I believe, weekly or biweekly snapshots of its balance sheets. So far, it has not been utilised. You can see that in the Bank's publications. I have no particular reason to think it will be utilised, but it is, for the smooth functioning of Government cash flows, important to know that, in an extraordinary or extreme circumstance, it is available as it has always been.

Chair: Robert, thank you very much for a very interesting and comprehensive set of answers.

Q7 **Felicity Buchan:** Thank you for taking the time. I am going to follow up further on QE. The Bank of England announced a further £100 billion of QE by year-end. If my arithmetic is correct, that is a slower pace of QE than has been done to date. Looking at the numbers, it seems that the weekly run-rate has been about £13 billion or £13.5 billion. That looks more like £4 billion per week. Are you concerned about that?

Sir Robert Stheeman: The short answer is no. That begs the question: why am I not concerned? My big concern is not about the pace of QE. It is not even about the quantum of QE. That, as I say, is a matter for the Bank. My concern is about the smooth functioning of the market. It is notable that, since the Bank made its big announcement on the 19th, not only has the market stabilised, but it has remained stable. Since last week's announcement was made, which showed this decline that you have quite correctly identified, markets have remained stable. Yes, there has been what we call curve steepening—in other words, high yields in the long end—but the market is functioning well and is stable.

Q8 **Felicity Buchan:** If the market, however, does lose confidence that the Bank of England is there as a buyer, are you confident that there are alternative investors out there who can buy your debt?

Sir Robert Stheeman: Yes, I am. You probably think, "Well, he would say that, wouldn't he?" Genuinely, I am and that is because the gilt market, especially in recent years, has developed a long history of what I would call incredibly efficient and smooth price functioning or price discovery. In other words, if sources of supply or demand are present or are removed, the price can and will adjust very efficiently. It is a remarkably efficient and liquid market, and has become so over the years, especially over the last 10 to 15 years.

If, in the scenario that you just painted, a major source of demand in the secondary market were not prevalent and if, indeed, that means that yields had to rise for that price adjustment process to work properly, so be it. That is what will happen. I am pretty confident that the market is indeed capable of making that adjustment until it has found whatever clearing level is necessary.

Q9 **Felicity Buchan:** Are you confident that the market will find that clearing level?

Sir Robert Stheeman: I am genuinely very confident, yes.

Q10 **Felicity Buchan:** Can I ask you a question about the steepening of the yield curve? We have 30-year gilt yields at very attractive levels. When I looked the other day, they were at 68 basis points. Should we be thinking about, here, doing more long-dated gilt issuance? The issuance of long-dated gilts looks to be roughly £2 billion per week. However, the Bank of England seems to be buying an awful lot at the long end of the market, more like £4.5 billion per week, perhaps because it has already bought so much at the short end that it has had to go up the curve. Given that imbalance of supply and demand at the long end and the attractive nature of yields there, should you be putting more of your issuance into the long end?

Sir Robert Stheeman: There is clearly a strong argument for Government to minimise, as far as possible, refinancing risk. That obviously means terming out our debt. It is also important, from where we sit, that we are issuing across all maturities, not least to ensure that we have a well-functioning market across the curve. We would not and, in my opinion, should not, because it would be against the exchange of letters that exist in terms of how QE was set up, be planning our gilt issuance strategy based on either what the Bank itself is doing or what we think the Bank might do or might not do in the future. As I indicated at the beginning of this session, it is very important that we just plan our own thing.

Should we be doing more at the long end or the short end? I would make a couple of points. First, the United Kingdom has the advantage that we have, by far, the longest average maturity in our debt portfolio of any major OECD country, certainly of any G7 country, of approximately 15 years at the moment. That is probably the most important thing we have for minimising refinancing risk.

Secondly, we also have to consider, when designing an issuance programme, what is actually practical in terms of immediate delivery. What I mean by that is this. When we are issuing, for instance, a short-dated gilt—let us say a five-year gilt—that, at the moment, could be anything between £3 billion and £3.5 billion at an auction. We issued today a long-dated gilt that had a £1.5 billion nominal amount. Admittedly, it is a higher coupon than the market rate. The point I am making is that it is easier to issue a lot of gilts, as we have to do now, in those parts of the curve that are the most steep and most liquid. They tend to be the short and what we call the medium part of seven to 15 years, especially 10-year benchmarks. We think, from where we sit, issuing across the curve is the most important thing.

Finally, I would make one little point. We discuss this in great detail with the Treasury. The composition of the issuance programme is ultimately a decision for Ministers, but we also look at any number of risks. I talked about refinancing risk. We use a very inelegant phrase, at times, which is "regret risk". We have to recognise that we do not know, even if we think we might, any more than the sum of all the pricing factors already out there in the market as to what rates may or may not do in the future. It is perhaps slightly counterintuitive. Anyone would say, looking at the yield curve now, these are historic lows. Of course they are, but I remember having very similar conversations with colleagues a few years ago when yields were 200 to 300 basis points higher and they have come lower still.

You have to be very careful with the locking-in argument that some people are using. This is not to say that I predict yields are going to go lower, but you have to be very careful that you are not locking into what might turn out to be an unfavourable rate. You also have to realise that, if you say that you think yields will be moving higher, you are expressing a different view from whatever the market at that point happens to think.

Q11 **Felicity Buchan:** Yes, understood. On the subject of prefunding, we obviously will be leaving the European Union at the end of this year. Are you concerned about uncertainty as we approach that date and would you think about frontloading your issuance to, now, September or October, so you do not have issuance in November or December to the same extent?

Sir Robert Stheeman: Probably not, because I do not think it would be healthy for the market to go from a feast to famine scenario. In general, the market has never shown a sense that it could not cope with, for instance, leaving the European Union. It may need to reprice itself for some reason, but even that would be pretty limited. In the whole debate around Brexit over the last few years, it is very hard to discern what, if any, gilt-market reaction there has been. I am not talking about the currency, but I am talking about the bond-market reaction. The gilt market tends to be, in its price formation, much more focused on the prospects for monetary policy, the economy and all those sorts of things. That has a much greater impact.

We have always tried in our issuance strategy to make sure we are supplying the market, as much as we can, in a constant fashion. I accept that this year is probably an extraordinary year and we do not know exactly the full nature of this year's financing requirements at this point. It probably behoves us to continue with a strategy of being transparent about what we think we need to issue, as much as we know that, and issuing accordingly. It would not be healthy for the market if we were to try to avoid going to the market for a period of time.

Q12 **Felicity Buchan:** You mentioned, in the context of QE potentially being reversed at some point, that we may have two sellers in the market: the Bank of England and you. In that scenario, would you co-ordinate with the Bank of England?

Sir Robert Stheeman: Indeed. That has always been the stated policy ever since QE was implemented. I think, as recently as last week, in the Bank's own announcement about the further £100 billion of QE, they reference that point directly and say that, if and when it comes to reversing QE, that will be done in a co-ordinated fashion. It is worthwhile saying that none of the authorities has any interest in doing anything that would be conducive to disorderly markets.

Q13 **Felicity Buchan:** Do you envisage that you would co-ordinate behind the scenes, the Bank of England would do that in the secondary market and you would continue in the primary market?

Sir Robert Stheeman: To some extent, we are not there yet, but I would take away from the Bank's statement last week, and what we and the Treasury have said on this topic, that, when it comes to that, we will be working closely, purely on the technical side. I should emphasise that we are not going to say to the Bank, "You should change your monetary policy in a certain way". The Bank will do whatever it chooses to do as far as monetary policy is concerned. What I would call sensible co-ordination on things such as timings of operations is what you would hope to see from the authorities.

Felicity Buchan: Thank you. That is very helpful.

Q14 **Julie Marson:** Thank you, Sir Robert. If I can begin with you again, afterwards, I will widen it out to Jo and Jim. There might be an element of repetition in what you want to cover here, but I am trying to get a feel for, specifically, whether you feel that there is a limit to the level of demand for UK debt. For example, the OBR predicted that the Government might have a requirement of £300 billion in the coming financial year whereas last year it was £50 billion. You have given evidence previously to this Committee saying that there is a level at which raising cash would become a challenge. Is that £300 billion the challenge or is there a limit beyond that which you would call the challenge?

Sir Robert Stheeman: It is a fair question. I said it would be a challenge. I am glad I used that word because you can interpret that in different ways. We always like a challenge, I suppose, but we had not quite bargained for what we got this year.

As a serious point, I said that then and I might say the same again, but it always depends entirely on the circumstances. One of the very perhaps surprising and, again, counterintuitive things about bond markets is that they have what I would describe as a certain elasticity. I might have said that before too. By that, I mean that they depend fundamentally on the amount of liquidity that is in the total financial system; this is especially true for Government bonds.

If I cast my mind back to not just last year but, say, the period 20 years ago, at that time the DMO had to issue, I believe, £10 billion in 2000-01. Here we are issuing, in the space of three months, 20-plus times that amount. That tells you that the market can grow or shrink accordingly.

I go back to the point I mentioned about, ultimately, the market having to find its clearing price. That is what really matters. There is no single number that represents a finite amount of demand. From our perspective, there are issues, which we are testing at the moment, around operational ability to raise all this money. When I first started at the DMO we used to have an auction approximately once every three or four weeks; this week we are holding five auctions in one week. We have never done that before. This happens to be the busiest week of auction operations we have ever had. At some point, if that were to have to increase, we might need to rethink our strategy.

To the question I was asked, I do not think there is a specific point at which demand ends. I want to reassure people that, ultimately, financial markets are extraordinarily flexible as far as this is concerned, and they allow for arguably very unusual situations like this to work efficiently.

Q15 **Julie Marson:** To follow up on that, aside from the absolute amounts we are talking about, how does the situation differ today from how it was during the financial crisis in 2008-09?

Sir Robert Stheeman: It is a really interesting question. A couple of things are notable. First, the crisis of 2008 and 2009 was a crisis that originated in the financial sector. It is not called the GFC for nothing. It was a crisis of the banking system. The crisis we have today, arguably, is not a crisis of the banking system. It is obviously a health crisis, and it is a fiscal issue. You could argue that it became a fiscal issue 10 years ago, but that is one fundamental difference between the two.

The other point that feels different from where I sit is that, at that time, back in 2008-09, there was almost—it sounds extraordinary—too much liquidity coming into the market, because people were taking it out of the banking system and putting it into what they perceived to be very safe assets. That dynamic still exists to some extent. Gilts are still indeed perceived as a safe haven, but it is a somewhat different dynamic. We do not, fortunately, have a situation where the banking sector's balance sheets are as stretched or in such a dire situation as they were then. To me, this feels very different. From where the DMO sits here, the numbers this time round are even bigger, but, operationally, we are doing the same things: holding auctions, syndications, raising the money that Government need.

Q16 **Julie Marson:** Perhaps I can turn to Jo and just widen this out. There is a little bit of repetition, but could I get your view on the Bank of England's policy of buying UK gilts? Does that insulate you from normal market forces or not?

Jo Whelan: It is a really topical question. The key thing is that the Bank is really looking to buy assets and it just so happens to be buying gilts. I look at the way that the Bank is operating more from that point of view.

In terms of what is going on in the gilt market, we distribute through a network of dealers called the gilt-edged market makers. Their role is to find the clients—the underlying investors or whoever—and pass the gilts on to those, to distribute through to those. We are making use, in effect, of their balance sheets to manage the inventory during that process of distribution.

One difference for the current situation is that the dealers who are planning to manage their inventory all need to know where they can find clients and so on. With the Bank operating in the transparent way that it does, in a very way, there is no hidden information around the operations. That must be helpful for how that dynamic works. There are still lots of end investors who are interested in switching around their portfolios, maybe growing their portfolios or downsizing their portfolios. All that activity is going on all the time, and Bank operations are really just another layer of activity that is busy in the market.

It is certainly great that there is flow going on in the market, but I do not think it is right to see it as us pushing stuff in and them taking stuff out. There is a lot of activity going on all the time in the market.

Q17 **Julie Marson:** I am going to ask one final question of Jim. We are going to be in the market this year at the same time as many other countries affected by the coronavirus pandemic. Is this supply issue of sovereign debt going to be an issue for us?

Jim Juffs: The actual strategy adopted by other countries is more one for Robert and Jo. My role is to make sure that we have the capacity.

Sir Robert Stheeman: Jim is the poor guy we just ask to make sure the operations run. At the moment, the situation we face with our increased borrowing requirements is very similar to what a lot of other countries are facing. It might seem that we are in competition, but that is probably not how it works in practice, in that we issue fundamentally different instruments and into different markets. If you are looking at the eurozone, you are looking at borrowing in a different currency there. There may be certain cross-border activities but we do not find ourselves in direct competition with others on this. That obviously makes it easier for us, so it is not something that we are concerned about.

To be quite frank, in my personal opinion, it would feel different within the eurozone, potentially, where people are using the same currency to borrow. That is a slightly different dynamic. We have the advantage that we are sovereign in our own currency.

Q18 **Mr Baker:** Thank you all very much indeed. It has been very interesting evidence. I would like to pick up on a couple of themes within it. Sir Robert, I am going to give you a break, because I want to ask Jim something about operations. Earlier, Sir Robert made a point about the co-operation between the DMO and the Bank of England being about the timing of operations. Could you tell us a little about why that timing is important and why you need to co-ordinate it with the Bank?

Jim Juffs: Clearly, on the way into QE, the Bank is a buyer in the market and we are a seller. On the way out of QE, were that to happen, there are clearly two sellers in the market. The Governor mentioned in his letter that there would be co-ordination between the DMO and the Bank, and it is for that very reason: so that we do not step on each other's toes.

Q19 **Mr Baker:** That is about the future, isn't it? What about the timing of the co-ordination you have taken part in, in the past? What was the purpose of that in the past, where the Bank was buying and you were selling?

Sir Robert Stheeman: I am sorry to jump in; you are going to be sick of me soon.

Mr Baker: There is no danger of that. I am just trying to use the other witnesses as well.

Sir Robert Stheeman: I know. As I say, I feel, in fairness to Jim, that this is one that I or Jo might handle. I would just say one thing: we do not co-ordinate anything at the moment. I imagine that the Bank has scheduled its QE operations deliberately at the various times throughout the afternoon, after we have got our gilt auctions out of the way, because it is probably trying to avoid a clash. As long as we are not on the same side, it will do its operations separate to ours.

Q20 **Mr Baker:** I want to ask Jo a couple of questions, and I will come back to you, Sir Robert, so bear with me a moment. Jo, Sir Robert gave an interview to the *Times* on 30 April, which I thought was a very good one; it was candid. Sir Robert said, "We were very lucky to get away with that auction. A few hours later and we could have had an uncovered auction". He also said, "Had the Bank not stepped in, things would have got very difficult". Do you agree that the position is that the Bank stepping in was what made that auction succeed, and that the Bank actually was a big player in the market, in the sense that it calmed them down and allowed things to move forward?

Jo Whelan: I do not agree that the auction would have not been successful if the Bank had not stepped in. As Robert explained earlier on in the session, the auction went relatively smoothly; it was fine.

To your major point that you are trying to get at, the Bank was motivated—the Governor has been very clear about this—by a concern about market dysfunction; that is not specifically gilt market dysfunction, and absolutely not the question of whether one auction was going to fail or whatever. A whole series of difficulties had been emerging in a wide range of markets—the FX market, corporate funding conditions, a lot of issues with very sharply increasing margin calls and so on.

We are talking about an era of quite a lot of market dysfunction. In addition—this is the really important bit—you have this emerging realisation that Covid-19 is a really serious national emergency, it is an international emergency and there is a huge effect globally on the economy across the whole world. That is going to give pause for thought to an institution that is targeting inflation, quite rightly. You have that conjunction of things.

The Bank has in its toolkit raising or lowering interest rates. It used the lowering of interest rates as one of the tools in its response to that wider picture. Another instrument that it has is QE. It needs to try to increase the amount of high-quality liquid assets available to the world, which is going into this meltdown, crunch situation, with the dash for cash, as it is called. Central banks need to consider how they best do that. They need to buy less liquid assets so that they can, in effect, transform them into these more liquid assets that are highly sought after. In our country, as is true of other major economies, the obvious instrument to use for quick action is the Government bond market, because it is the core market and it is so liquid. That is how I would interpret it.

Q21 **Mr Baker:** I will just refer to my registered interest in Glint Pay, which I appreciate I should have done at that start. It is because the language has moved on; you used the word "meltdown" there and I should just refer to my interest in that company.

Sir Robert, let me put very plainly to you what I think is coming out in this evidence: is it not the case that the Bank of England is a big player in the bond market now, and a big player capable of causing herding for good or ill?

Sir Robert Stheeman: I am not quite sure. You say "causing herding".

Q22 **Mr Baker:** Let me elaborate. Further on in your *Times* interview, you say of the market, "It has got used to the notion that there is one large seller in the primary market—us—and in the secondary market there is one very large source of demand—the Bank. That has established an equilibrium that has given market makers the confidence that it is now a safe market in which to operate". That is at the heart of the points that I have just made to you. In saying that, you are proving the point that the Bank is a big player and that the Bank's actions do cause market players to operate in concert or, in other words, to herd. In this case they herded for good, because they enabled the market to operate in a more orderly way, which I think is what you are just confirming.

To get to the absolute heart of what I am saying, my concern is that, were the Bank not to have stepped in, or were the Bank, to Jim's point earlier, trying to sell bonds, even if you were co-ordinating, is there not a danger that, just as a matter of the institutional set-up and the power of the Bank of England, the Bank could cause herding in the bond market that did not help you get all that debt sold?

Sir Robert Stheeman: To some extent, one can only speculate. All I would say is that the Bank, because of the size of its QE programme and the way it has been involved in the market, inevitably, like any very big player, be it a buyer or a seller, in that secondary market will have an impact. People will watch carefully what it is doing. One difference between the rest of the market and the Bank is that it actually announces what it is doing. I also imagine that is deliberate; that is one for them.

The impact on the market will ultimately play itself out through the supply and demand mechanism in terms of the price. It seems to have deliberately chosen to appear as a very big buyer, because it obviously wanted to have a stabilising effect on the market, and that was indeed successful. In terms of whether other market participants take that as a cue to act in a certain way, I imagine the Bank will have considered that. It may feel that that is not an issue that particularly concerns it.

Q23 **Mr Baker:** The central point is that the Bank acted and it stabilised markets.

Sir Robert Stheeman: That is a fair point and it is one that the Governor himself has pointed out. Central banks in other jurisdictions have also deliberately been trying to do that. It is worth noting that, the weekend before 19 March, the Fed stepped into the US Treasury market in a very major way and made an announcement then.

Q24 **Mr Baker:** Bearing in mind your and Jim's evidence, you are telling us that you are alive to the risk that, were the Bank to be unwinding QE, you would need to co-ordinate together to make sure that markets worked well.

Sir Robert Stheeman: That is a fair point, yes.

Q25 **Anthony Browne:** I will start off by asking about the negative yields that some of your bonds have been on. On 20 May, you sold a gilt with a negative yield for the first time, at least for a three-year gilt. Were you surprised by that?

Sir Robert Stheeman: In a nutshell, no, because it was a short-dated gilt, and yields at the short end have been, from time to time, and still are trading negatively. We spoke about the yield curve. Currently we have, for the UK, a very unusually steep yield curve. I have a screen in front of me; I am actually in the office. Some of the short-dated yields are at minus 3 or minus 4 basis points.

I am literally reaching across to show you a press notice of an auction from this morning that we held, which was a 2024 gilt, where the average yield was minus 0.04%. These things will happen from time to time. However, when issuing, for instance, a longer-dated issue—2054—as we did an hour and a half later, that cleared a yield of 0.65%, so that was a bit more expensive.

Q26 **Anthony Browne:** Do these negative yields impact your ability to hold successful auctions and to raise investment?

Sir Robert Stheeman: It does not appear that way. Those auctions that have cleared with negative yields have been well received and have had good covers and what we call small tails—apologies for the vernacular. They have been relatively robust and well attended. There may be some investors for whom a negative yield is not attractive, but clearly there are others who think differently.

I would also note that the negative-yield phenomenon is not unique to the UK. Very often, you will find that, especially with international investors, they will compare yields across different jurisdictions and may find a yield in one jurisdiction of greater interest than another.

Q27 **Anthony Browne:** Do you think there is still investor interest in negative yields because it has been such a bull market in other asset classes, such as equities, and there is basically a flight to safety to the gilt market?

Sir Robert Stheeman: My interpretation is that negative yields are more a reflection of very loose monetary conditions across, frankly, the entire financial system globally. It is more that than anything else, and it is a sense that, at this particular point right now, inflation is probably not perceived to be a concern.

Q28 **Anthony Browne:** Does having negative yields change investor behaviour at all?

Sir Robert Stheeman: As I tried to hint at, yes, it probably does for some investors, because there will be some investors who will not be willing to accept a negative yield. This goes back to what I was trying to convey about this being a very large, diverse market, with all sorts of different participants who have different motivations, some of whom are completely unfazed about, effectively, locking into what is presumably a capital loss, as long as they are holding that bond to maturity. That caveat at the end is an important one, because there is a lot of trading going on in the market where someone might be buying a negative yield—

Anthony Browne: Making a profit in the meantime.

Sir Robert Stheeman: Exactly.

Q29 **Anthony Browne:** We recently had Andrew Bailey, the new Governor of the Bank of England, giving evidence to us. We asked him a question about whether Bank of England base rate could go negative. It is 0.1% at the moment. He did not explicitly rule it out and one of the ECB's rates has gone negative. If you had a negative base rate, how would that affect your ability to do your job? Would you still be able to raise money? Would it have little impact?

Sir Robert Stheeman: The honest answer is that I do not know. Until it has happened, I cannot give you any certainty on that. It has not happened and I do not know whether it ever will happen. I do not think, though, it would necessarily affect our ability to raise money. Our ability to raise money depends entirely on the market finding the right clearing level to take down our supply, so it is possible, in a theoretical concept, that you have a policy rate with negative yields—this has happened in Germany and other jurisdictions—but the bond market might be more or less negative, or in some cases even positive. They are not that closely linked, especially not in the medium and the long end.

Q30 **Anthony Browne:** Could you ever imagine locking in the negative yield with a negative coupon bond? Would there be a market for that?

Sir Robert Stheeman: That is a good question. I would point to what we do with the inflation-linked debt that we sell. Some people may not be aware but we have had negative real yields on inflation-linked bonds for many years now. The entire inflation-linked debt portfolio yields negatively. However, whenever we have brought a new gilt to the market, we have brought it with a positive, though admittedly very small, coupon of usually, as a minimum, one-eighth of a per cent. We then sell that at a premium, so not at 100% but at a premium. The advantage, of course, of that is for systems. Ultimately the coupon is irrelevant; what really matters is the yield.

Q31 **Anthony Browne:** Can I just ask a retail question? We are looking at a huge rise in our national debt now; it is over 100% of GDP. In the Second World War, it rose to 250% of GDP, and that was partially financed by war bonds. There was a big public movement at the time to do your bit for the country by buying the war bonds. Clearly, we do not generally have a big retail investment in gilts in the UK, but in some countries, such as Italy, it is very common for households to buy their Government bonds. Can you see any interest or reason to have coronavirus bonds, or to encourage retail buying of bonds to help fund the national debt?

Sir Robert Stheeman: I have heard plenty of talk about that, in particular for the retail side. It is indeed a product that might appeal. I should say that we are probably talking, in terms of retail, about the private savings market.

Q32 **Anthony Browne:** Savings rates have gone up a lot, because people have not been spending money.

Sir Robert Stheeman: Indeed, absolutely. You are making a very valid point. I wanted to slightly duck the question inasmuch as I do not consider myself an expert on the private savings market. The sort of product you describe is ultimately going to be one also for the Treasury, as well as potentially, if this were under discussion, one for National Savings and Investments, rather than for us.

Q33 **Harriett Baldwin:** I should start by declaring my interest. Robert and I have been friends for many years and, through mutual friends, know each other personally.

I want to ask specifically about a subject that Felicity was touching on earlier, which is around the maturity of the debt that you are currently issuing. Have you been given a specific request by the Treasury to increase or shorten the maturity, which already is significantly longer than the rest of the G7?

Sir Robert Stheeman: When we announce what we are going to issue, and specifically the maturity bands, there is, by definition, a target built into that; "target" is too strong a word. By saying we are going to issue whatever it is in shorts, mediums and longs, we are defining what there is. We do not have, and the United Kingdom has never had, a specific target of maturity or duration in its portfolio. One or two countries have done that, I am aware; we do not. In the current environment, the maturity of the debt that we are issuing, as I indicated earlier, is determined, to a significant extent, by what is practical when we have been asked, as we have, to raise significant amounts of money in a very short time. It is a question of what you can actually get into the market.

I mentioned the different sizes that we issue for long-dated debt compared to shorter-dated debt. It is easier to issue much larger amounts in shorter-dated debt, in size, because that is the more liquid part of the market.

To your question, as always, decisions on the precise maturity of what our issuance programme should look like are ones we discuss with the Treasury in great detail. There are ongoing discussions, as you would imagine. Ultimately, they are decisions for Ministers. Ministers will decide, indeed based on advice that we will give, but they will make the decisions themselves.

Q34 **Harriett Baldwin:** I appreciate that it is a decision for Ministers. I just wondered if you had been given that specific instruction at the moment, to lengthen or shorten the maturity on average.

Sir Robert Stheeman: The Treasury and Ministers are very mindful of the need to minimise refinancing risk. The only formal instruction that we have is effectively in the remit as it is currently public and stated. We do not have specific maturity targets there, but rather we are trying to flex this. We are trying to see how much we can basically do, in a practical sense. Whether it is possible to upsize certain operations and all those thoughts are in the back of our mind, but we have not been given a specific target.

Q35 **Harriett Baldwin:** In terms of the ownership of the outstanding gilts that are not owned by the Bank of England, your quarterly report says that about 30% of them, I think, are owned by overseas investors. Can you give us a bit more detail on who those overseas investors are?

Sir Robert Stheeman: I wish I could give you genuine granular detail. It is something that, as long as I have been here, I have regretted that we do not have. We derive that 30% figure that you mentioned from ONS statistics. That is our source. The ONS, in turn, gets that partly from the Bank itself, in terms of flows and from various other sources.

Who ultimately is the owner, internationally, of gilts—not just internationally—is something that, to my regret, we do not know. It is important to state why that is. The reason is that, while gilts are registered instruments, they are very often held in nominee accounts. In other words, the beneficial ownership lies elsewhere. We get data from the registrar on who is on the registry, but that information is of very limited value, because so much of the gilt portfolio is held in nominee accounts, so we do not know the precise identity.

Q36 **Harriett Baldwin:** I know that you often travel the world to promote the value of gilts as an investment. I wondered if you were being given direction at the moment by the Treasury as to which countries you should be travelling to, to promote interest in the gilts that you are planning to issue over the year ahead.

Sir Robert Stheeman: We have not been given specific direction. It is important that we can and do speak to investors overseas, be they official institutions, such as reserve managers, be they sovereign wealth funds or be they international investment managers. My sense is generally, dare I say it, that we probably have a pretty good feel, through our contacts in the market, for where a lot of international demand is coming from. We will discuss regularly with the primary dealer community—the gilt-edged market makers—what they are seeing in terms of international flows. That is of interest to us.

Q37 **Harriett Baldwin:** Can you share with the Committee what those markets are overseas, when you say you have a very good sense of where demand is coming from? Could you rank the top five, perhaps?

Sir Robert Stheeman: I would not want to do that because it is very often simply a question of flows and it can vary hugely. Asia, in the widest sense, is a big one, as is, to some extent, Europe. There was a period a few years ago when South America was particularly strong.

You probably will not be surprised to hear that I have not been to any of these countries anywhere for the last few months. There are other ways, of course, of maintaining dialogue than physically going there, but we will talk to various people.

Q38 **Harriett Baldwin:** If you had to guess, how much of our outstanding debt do you think would be held by Chinese investors?

Sir Robert Stheeman: The straight answer is that I really do not know. It is not unheard of but it is rare for any international investor to tell us exactly how large its individual holdings are. They regard that, perhaps understandably, as proprietary information.

Q39 **Harriett Baldwin:** You must be able to have a guess. You are very well informed and very intelligent. You must be able to take a stab. Is it 5%? Is it growing?

Sir Robert Stheeman: Is it growing? That is a good question. My guess is that it has probably been growing not just in China but elsewhere. The reason I am not sure that overall Chinese investment in gilts is necessarily growing—

Harriett Baldwin: As a proportion.

Sir Robert Stheeman: Exactly. Its foreign exchange holdings over the last few years have been declining slightly.

Q40 **Harriett Baldwin:** Would you say its holdings have been declining as a percentage?

Sir Robert Stheeman: No, I do not believe so. That is not what I would speculate is the case. I have to be completely open and say that I really do not know exactly. A number of major central banks across the world, which have been buyers of gilts over the last, let us say, five years, remain buyers of gilts. We can see that.

Q41 **Harriett Baldwin:** Are there any that are no longer buyers of gilts?

Sir Robert Stheeman: There are not that I am aware of. Again, one of the disappointing things from our perspective is that, unless a particular investor formally puts in an order for an auction and that order goes into the auction at 10.30 or whenever the auction cuts off, we do not directly see what the activities of that particular investor are. We receive information about investors in the primary market only if those orders are put into an auction or appear in a so-called syndication where there is a full book. There we have more granular information.

Q42 **Harriett Baldwin:** You have said, as I understand it, that you would find it helpful, particularly at this time, to have more information available to you on which overseas investors hold UK debt. Is that a correct summary of what you have said, Robert?

Sir Robert Stheeman: Yes, I have always felt that. I have always felt that it is good to know your investor base and I have always been slightly frustrated that we do not have that knowledge. I only console myself with the fact that I know, more or less for a fact, that most major sovereign debt managers also lack that information. When I meet with my peers, we often share our disappointment about that.

Q43 **Ms Eagle:** I was looking recently at the 2010 Conservative manifesto, which placed the credit rating as its top economic benchmark for Britain. The soon to be Prime Minister said that the credit rating is the mark of trust in our economy and that keeping the AAA credit rating is therefore the top economic benchmark for success. Since then we have had several downgrades, so how much lower does it have to go, Sir Robert, before you worry about the level of our credit rating?

Sir Robert Stheeman: It is a good question. Ultimately, any decline in the credit rating, for obvious reasons, does not feel welcome. What I think has probably happened over the last 10 years, though, is that the importance and significance of credit ratings, especially in sovereign debt markets, has declined. That is partly, perhaps, because of a realisation, as we always say, that credit ratings are lagging rather than leading indicators. A credit rating, especially for those countries, such as the UK, that have a significant and important domestic investor basis, is not so vital to the ability of the sovereign, in particular—it is perhaps different for the corporate sector—to raise funds.

Having said that, a downgrade, of course, is not good. I accept that. I am not saying that I necessarily expect or do not expect a downgrade; I have no idea what is going to happen. All I would say is that we are not the only sovereign seeing a huge shift in its fiscal position as a result of the current crisis. There is a significant increase in borrowing across all G7 countries. If that leads to the downgrade of one, whoever that might be, it is not immediately obvious to me why it would not lead to the downgrade of another. I stress the word "if", because credit ratings, ultimately, have to be relative things. That is quite an important point.

Q44 **Ms Eagle:** We learned about some of the nature of the AAA rating during the 2008 crisis. It was certainly seen, and was taken up by one of the current Government's predecessors, the coalition, as crucial. Last year, when the Committee asked you about the risks of a UK credit score being downgraded, you said, "A one-notch downgrade or something like that is unlikely to have much, if any, effect at all". You then said, "Where you start talking about a significant downgrade where we might lose, for instance, the AA status we currently have", you would be more worried about that. We now have a Fitch credit rating of AA-, which places the UK in the same rating as Estonia and Taiwan. Are you worried about that?

Sir Robert Stheeman: Again, no, because, as I just said, if there is any movement, it is likely to be in tandem with others. I need to acknowledge one part of your question. If—this is obviously just an "if"—a downgrade happens, it is possible that yields might rise, but it is worth noting that, in the period of the downgrades that you have referenced historically, over the last 10 or 11 years, yields have declined. Markets have a tendency to do the absolute opposite of what you think is going to happen. I have slowly managed to learn that. It is not immediately apparent to me that there is going to be a big issue.

The comments I made last year also need to be seen in the context that no one envisaged this current situation, in any country, becoming the sort of issue that it clearly has. The very significant increase in borrowing that we have seen so far this financial year was never envisaged. We were looking at a very fundamentally different economic environment. I do not want to cast aspersions on the credit rating agencies; that would be very unfair.

Ms Eagle: I am well known for doing that. I am dubious about them.

Sir Robert Stheeman: Ultimately, they are just opinions.

Q45 **Ms Eagle:** People take it seriously so we have to take it seriously. I am just trying to gather at what stage of the downgrading, notch by notch, away from AA, you would start worrying. You seem to be saying, "I will not worry so long as everyone else is going down the same way". If, for example, we had a downgrade that was out of kilter with some of the larger economies, would that worry you? I am just trying to get a handle on whether these things are useful at all.

Sir Robert Stheeman: From where I sit today, I would phrase it differently than "worry". I would have to acknowledge that there must be a chance that an out-of-kilter downgrade, for want of a better expression, leads to higher yields and therefore higher borrowing costs. That, from where I sit, given our cost minimisation objective, is clearly not the most desirable outcome.

Q46 **Ms Eagle:** Some of these downgrades happened prior to coronavirus emerging. Since we now have OECD and IMF forecasts that the UK will face one of the largest effects in lack of growth and loss of GDP, it must be on the cards that there might be an out-of-kilter downgrade, given where we are in those international league tables and forecasts.

Sir Robert Stheeman: I cannot rule anything out.

Ms Eagle: Nothing seems to cause you to lose any sleep, Sir Robert, which is probably a good thing given your day job.

Sir Robert Stheeman: I cannot predict the markets and I am probably even less good at predicting rating agencies.

Q47 **Ms Eagle:** Why do you think that the UK, over time, is so out of line in the longevity of its debt compared to other countries? It is often talked of as a strength. Why are we doing that when no other countries are? Are there special things about our economy, apart from the fact that we have a sovereign currency and, up until recently, a fairly stable political system, that cause us to be able to carry debt that is that long term? Do you think that any of the recent issues with our political system—the threats to the union and the upheavals we have had in the last few years—will affect our capacity to keep that long-term benefit of longer-term debts?

Sir Robert Stheeman: That is a really good question. There are a number of unique things about the UK. It is important to realise that the unusually long average maturity that I referenced has been prevalent now for many years. For the best part of the last 30 or 35 years, until the financial crisis, the UK had, very unusually, an inverted yield curve; in other words, yields at the long end were lower than they were at the short end.

The main reason for that is that we here in the UK benefit from a very robust domestic investor base, dominated by what I refer to as the pension industry: domestic pension funds and life insurance companies. They have, for a number of years now, been seeking to match their liabilities by purchasing Government assets, gilts in particular. That depressed yields at the long end. For a long period, we took advantage of that.

Earlier on I referenced 2000-01, where we borrowed only £10 billion. I like to remind people that, in that year, we did not issue a single bond with a maturity of less than 15 years. Everything was longer, mostly 30 years. Back in 2005, we increased regular issuance beyond 30 years, into what we call ultra or super-long maturities of 40 and 50 years, and even longer, because there was demand from this pension industry. It was a rare and unique case of a win-win situation for us as debt managers. We were issuing what the investor base wanted and we were getting a better price than we were in the short end of the market.

The shape of the yield curve has changed since then; it is important to note that. Long-dated debt historically still looks very attractive, but in relative terms, compared to short-dated debt, it is no longer cheaper. That does not mean we should not be issuing long-dated debts. We are unique there.

The other point is something we have tried to do at the DMO, in particular, if I may claim for the office a bit of credit. In our issuance strategy, not only have we issued long but we have always attempted to build up deep, liquid, tradeable benchmarks in a range of maturities. That means not just five, 10 and 30 years—classic maturities in Government bond markets—but 15, 20, 40 and 50 years. We do not just do one-off issuance; we build these bonds sometimes into very big size, so that they are liquid benchmarks. There are a number of other sovereigns that issue very long-dated bonds from time to time, but they tend to be a one-off.

Finally on that point, you may be aware that the US has been trying to lengthen its duration and issue much longer bonds. It looked at trying to issue 100-year bonds but probably decided it was not in its best interests in value-for-money terms. It was very costly. Most recently, the US issued a 20-year bond as a compromise. We, fortunately, have this investor base that supports our long-end issuance. I am sorry if that is a long answer to that question.

I know there was another part to your question, which was about whether I see developments that might change that. I would be more concerned about a decline in demand from this domestic investor base for very long-dated paper than I would necessarily be about any specific political development that I can see. We rely on this long end of the market very strongly and it is a huge strength that we have.

There is a final point that I always like to make. A long average maturity is great. From a cash management perspective, however, it is really important that we can also pay next week's coupon or redemption.

Q48 **Mike Hill:** I am trying to get an understanding of how leaving the EU will affect the UK's ability to borrow at the same rates. The EU capital requirements regulation allows EU banks to assign a 0% risk weighting to EU member state sovereign debt when calculating capital requirements. When we are outside the EU—I know we have stated the intention in January to leave—will this mean there is less demand for gilts from such banks? Have you had any discussions with the investors about this? I do not know who to ask this question to; Robert has been so good. Maybe Jo or Jim could answer.

Jo Whelan: You are right that EU regs give that kind of zero-weighting advantage to EU member states, but it is not quite as clear cut as saying that we would no longer enjoy that, for two reasons. There are two ways that banks and financial institutions can approach their capital requirements. First, they can use what is called a standardised model. That one cooks in that, if you are a EU member state, you get a zero weighting, but it also allows other non-EU sovereigns to have a zero weighting if they meet certain credit rating criteria that we currently meet, so that is not going to change things necessarily.

Other banks and institutions may opt to use an internal-model-based system when they are working out their regulatory capital. If they do that, they are quite likely to use a similar approach. In theory, it could mean that they would make their own assessment of the credit rating.

That might be different. It might be lower, for example, in which case that would, at the margin, make the capital requirements a bit more expensive. It is not a black and white picture.

Q49 **Mike Hill:** You have actually answered my second question, Jo, which was simply about what credit assessment and risk rating will be applied to UK gilts. If you could possibly answer the next one, has there been any change in demand since the UK stated its intention to leave the EU in January?

Jo Whelan: In relation specifically to the regulatory backdrop, I do not perceive that there has been. There are relatively few things that are directly affected by this. As I said, there are some things where the formality changes but not necessarily the significance. I do not know if Robert has any thoughts to add on that one.

Sir Robert Stheeman: That is correct. It is incredibly hard to disentangle, for instance, any political development, or any development such as the one you have just described, from wider price movements. When you talk about demand, demand may wane from a specific investor or investor group, but it would then arguably be replaced by another form of demand from another investor group. To facilitate that, the price might have to move, of course.

Q50 **Mike Hill:** We are six months away from Brexit, possibly—it is looking likely—with no trade deal. Are you hearing any concerns from overseas investors that the UK debt is going to be seen as a riskier asset? Is that anything that you have been hearing?

Sir Robert Stheeman: Rightly or wrongly, and I am not passing any judgment here, Brexit does not seem, at this moment, to be a topic that is occupying not just financial markets but bond markets, sovereign bond markets and gilts. I would also say what I might have said previously. On the discussion around leaving the European Union, last year the wider financial market seemed much more sensitive to that discussion and it had an impact more on the currency than on the bond market.

Q51 **Mike Hill:** That is interesting, thank you. Mentioning gilts again, which factor do you think will have a bigger impact on the price for UK gilts: the large increase in their supply, due to coronavirus, or the UK leaving the EU, potentially with no trade deal?

Sir Robert Stheeman: In general, I am not sure that investors, when they are making their decisions, think about weighing up one particular factor versus another. It does not seem to me that is the way that they behave. You could argue that right now the whole news flow clearly is much more about the coronavirus, although Brexit is talked about. Notwithstanding the huge impact that that is having on our borrowing programme, the price and the levels at which we are borrowing remain very low currently.

We have talked previously in this session about why that is and the different elements of demand. I find it really hard to tell you that the market is concerned about this specific thing or that specific thing. Forgive me for saying this again, but the market works on the basis of supply and demand. Even if our supply, because of the coronavirus measures that the Government have introduced, has grown hugely, there is still demand at this current price level. What happens with Brexit I honestly do not know, but it does not at this stage obviously seem to be impacting on price formation.

Q52 **Mike Hill:** The big discussion will happen when we effectively get to the stage of Brexit in six months' time. Right now you say that the focus would be more on coronavirus and its economic impacts.

Sir Robert Stheeman: That is certainly fair as far as the discussion is concerned. Even if that discussion becomes much more pronounced in six months' time, I would caution that it may not be apparent in the price at which we have to borrow.

Q53 **Mike Hill:** Does any other colleague have an opinion on that? Is it their opinion that Brexit is not the big driver at the moment?

Jo Whelan: It is fair to say that at any time the market is looking ahead at all of the information available to it about the economic outlook and the path of interest rates in the future. It is very difficult to disentangle which bit of that is to do with coronavirus, which bit is to do with some other global phenomenon and which bit might be to do with Brexit.

Also, to Robert's point, as the uncertainties disappear and greater clarity emerges about, particularly currently, how big the Covid impact is going to be, the market will organically be pricing that in as we go along, rather than there being some kind of cliff edge that would happen.

Q54 **Mike Hill:** That is very interesting. Jim, do you have an opinion?

Jim Juffs: I am interested in the delivery of the programme and whether we have the capacity to deliver it. With the current programme, we have issued record amounts in a short time. For example, we have undertaken, in the first four months of the year, more operations than we did in the whole of last year. My perspective is to make sure that we have the capability to deliver whatever the outcome, so coronavirus alongside any Brexit scenario. That is what I will focus on over the rest of the year.

Mike Hill: You are the guy that keeps it in a robust perspective.

Jim Juffs: Not quite. I will be making sure that we can still fund the UK Government on every UK business day, come what may.

Mike Hill: That sounds like Christmas.

Chair: It sounds like quite a responsibility.

Q55 **Alison Thewliss:** I have some questions, largely for Sir Robert, on the green Government bonds issue. In January, the *FT* reported that you thought that the green bonds would be symbolic and useless unless investors were prepared to pay more for them. Why is it that other countries, such as France and Ireland, have chosen to issue green bonds?

Sir Robert Stheeman: I hope I did not misunderstand you and I hope I did not give the impression that I thought that they would be useless. I said that they would be symbolic because we are fortunate enough to have a funding programme that can raise, in a very cost-effective manner, finance for Government that covers all range of expenditures, including those explicitly related to the green agenda.

It is important to remember that sovereign Governments are in a unique position. They are not corporates, where some of their activities are specifically green or not. A Government can do things that the private sector cannot do. They can pass legislation. They can make regulations. They can have a much greater impact on the green agenda and the environment, in a way that is arguably not always possible for a corporate. That does not mean that we cannot do a green bond. The point I was making was that a green bond will carry with it a symbolism, which might be a good thing. We can achieve a green agenda not just through the issuance of green bonds. That is a little bit the point that I was trying to make by using the word "symbolic".

Q56 **Alison Thewliss:** Do you think there would be any difference in the price that they trade at? Analysts have found that French and Irish green bonds have traded at roughly the same price as conventional debt, but there is clearly an interest there and people choose to invest in them. In what way are there any disadvantages in doing this?

Sir Robert Stheeman: It is a really good question. Obviously, the strength of demand for green gilts, as I will call them for want of a better word, at this stage is untested. We do not know. It is also true that a few years ago green issuance came at a premium, and maybe even a significant premium, to existing Government bond curves. That premium has narrowed and we should acknowledge that. We do not know whether that premium can be removed entirely, especially for a new issuance.

You point out that in other jurisdictions that premium has been effectively eroded and that they trade very closely together, which is correct, but that is also in the secondary market. For us, what is really important is the price at which we can issue in the primary market—in other words, when we are launching it in the first place. In a narrow sense, it is not completely helpful to us if we were to launch a green gilt at a premium, just to see it narrow, because we would have still spent more than we would have done otherwise on a standard gilt. I am not saying that is an insurmountable hurdle.

I should really stress that the decision on whether to issue a green gilt is ultimately for Ministers. I have always recognised that but, as I say, if it comes at a cost to standard gilt issuance—I stress the word "if", not "because"; this is not to say that it will—that needs to be justified on an overall value-for-money basis.

Q57 **Alison Thewliss:** As part of its decarbonisation inquiry in the last Parliament, this Committee heard that there was an unmet demand for green hypothecated bonds. Do you accept that to be the case, and do you think that, given the huge interest that has emerged over the past couple of years in green finance and in trying to make those decisions long term, for the future of the planet, that demand is still there and would be strong?

Sir Robert Stheeman: It is a good question. We have certainly had evidence of good demand. I have no doubt that there is potentially untapped demand that we might be able to access.

In terms of the future, it is a very interesting question. One thing I would say about the green bond market is that it has changed over the last few years from what used to be pure green bonds; by that I mean you trace very specific use of funds for particular environmental projects. People are still talking about green bonds; however, pure green bond funds are not as large as one might think. What has become much more of a growth industry in recent times is what people refer to as ESG: environmental, social and governance issues. There is a much larger rise in that part of the market.

The reason I mention this is that that covers green bonds as well, but you can observe, it is fair to say, a shift already happening, and potentially it will happen more in the future, which is to widen the agenda from just a very narrow environmental or green agenda to one of what people refer to as ESG financing. I welcome that, because I would wish for fixed income markets globally that the investor base would become a little more discerning, along lines that are focused not just on one specific need—a green gilt or something, however valuable that might be—but on the overall quality, not just in credit terms but in terms of social issues and good governance, and would view issuers in that light.

I might have gone slightly off at a tangent, but there is potentially a shift going on in the market at the moment. The narrative for those of us involved in fixed income markets is that, yes, green gilts or green bonds are still an issue, but that is beginning to shift somewhat.

Q58 **Alison Thewliss:** You say this is a political decision and it would be for the Government to do that. If this were to go ahead and the Government needed to earmark revenues from particular taxes or debt for particular purposes, they would need to change the law. What form would that take?

Sir Robert Stheeman: I would probably have to defer to my colleagues in the Treasury because they are the experts on this sort of thing. It has to do with the whole issue of what is known as hypothecation. The extent to which any legislative chance would be needed needs to be tested thoroughly with legal experts. We would certainly need certainty that no legislation would have to be passed to enable such hypothecation. There is an additional principle that in general, until now, in this country we do not hypothecate revenues, be they tax revenues or be they moneys that we raise through financing. There is a legal question that at the very least would need to be clarified. That is something that the Treasury would undertake if that was required.

Alison Thewliss: Thank you very much, and thank you for bearing with me as my six-year-old started yelling through a window.

Chair: I was just speculating as to whether her cry of "Mummy" might get into Hansard. It has now, so I am pleased for her.

Q59 **Siobhain McDonagh:** Most of my questions, although not all, are to you, Jim. They are about the gender pay gap in the Debt Management Office. Last year my colleagues on the Committee asked you about the Debt Management Office's gender pay gap. You said it was 13.5% in 2017-18. We have the data from the Treasury's 2019 publication, which shows that the Debt Management Office's gender pay gap had gone up to 22%. Why has it gone up?

Jim Juffs: First, this is very close to our hearts. We are totally committed to diversity and inclusion, and that extends to gender. About a third of our staff are female. A great illustration of our level of diversity is that our four executive board members have an exactly 50-50 split between male and female. The one missing today is our good colleague Jessica Pulay, who is holding the fort in the office. We are totally committed to this.

The reason for the spike in the last year was that we are a very small organisation; there are only 130 people. On the permanent staff, in that particular sample in 2019 there are only about 45 female members of staff. We are very susceptible to composition changes of our employees, and during that year, just by chance, we had four relatively senior female members of staff leave for various reasons. One issue for us is that the small size of the organisation can really play havoc with the gender pay gap numbers.

Because we are at the cusp of the private and public sectors, there is probably a more general influence in that we are not always able to encourage women to come to us during recruitment rounds. We want to try to work on that feature of the DMO's offer because we can make more of our being a great place to work.

Q60 **Siobhain McDonagh:** You also told the Committee that the Treasury's pay gap was a bit lower than the Debt Management Office's. The Treasury's pay gap is 3.7%; the Debt Management Office's is 22%. It is not really just a little lower. Why is the Treasury's pay gap so much smaller?

Jim Juffs: First, the Treasury is a much larger organisation. I mentioned the DMO being a small organisation. The Treasury has less of an effect from, in my view, relatively small amounts of turnover. It can also recruit from a much more broad base of skills, whereas we are always looking for specialists in particular types of profession. For example, if we are recruiting technologists, we may find that there are very few potential candidates applying for such roles. The composition of the business is very different from the Treasury's.

Q61 **Siobhain McDonagh:** To Jim and Sir Robert, given all that has been said, what tangible action is the Debt Management Office taking to reduce its pay gap, and will it be lower next year?

Jim Juffs: Will it be lower next year? I have seen the results for next year, which have not been published, and we have improved a bit year on year. It will not be enormously lower. It will be comparable to another organisation that is also at the cusp of the private and public sectors: the Bank. Our gender pay gap broadly has, over the last couple of years, mirrored the Bank's own experience.

Having said that, there are things that we want to do. In terms of pay and progression internally, we have a very structured approach, which looks across the whole panoply of factors to ensure that we are being completely fair to all types of staff. For the future, we will need to look at the ways in which we can encourage females to apply to the DMO for the vacancies that might arise.

Sir Robert Stheeman: Jim has answered the question very clearly. I go back to his previous point. Part of the problem for us is indeed the environment in which we operate. You drew the comparison to the Treasury and it is a valid comparison to make, but we operate here in the City, in the financial sector, and we recruit, I believe, over 90% of our workforce from the private financial sector, not from the public sector. The public sector in general does better at these things, and the Treasury certainly does, than the private sector, and certainly than the private financial sector. You will find gender pay gaps in the City can go up to 40%, 50% or 60%. We are much more in line there with, for instance, the Bank of England than you would expect. We are something of a hybrid.

Fluctuations in the gender pay gap, which will occur from year to year, need to be seen in the specific context of individual staff and the very small sample that we are talking about. That is important. That jump that you referenced at the very beginning was heavily influenced by the fact that four relatively senior members of staff left the DMO and they were all women. In one particular case, we have been able to recruit another woman into that position, but that individual happens to be a contractor and contractors are not captured by this data. That is why I would put a bit of a warning around looking too closely at the data in isolation of factors when you are considering a small organisation such as ours.

Q62 **Siobhain McDonagh:** Jim, do you know what proportion of your staff are from black and ethnic minority communities?

Jim Juffs: Yes, indeed. It is about a third. We are at 32%.

Q63 **Siobhain McDonagh:** Do you have any idea of the pay gap?

Jim Juffs: I know the BAME pay gap is being looked at. It is part of a consultation that finished earlier in the year. We really want to see the output from that review. We will fully embrace any conclusions if it requires us to publish our pay gap in that respect.

Q64 **Siobhain McDonagh:** When you understand what that gap is, would you let members of the Committee know?

Jim Juffs: Yes, of course we will.

Chair: On that point, Jim, if you could just write to the Committee with a fuller reply, that would be great.

Jim Juffs: I would be delighted to.

Q65 **Mike Hill:** My questions are to Jim. According to your own report, the DMO, in 2018-19, had about 135 full-time-equivalent workers, 97 civil servants and 38 on short-term contracts. I am looking at the impact of coronavirus on working practices in the DMO with these questions. Jim, how many DMO staff have been off sick, unable to work, as a result of the coronavirus?

Jim Juffs: It is a good question. We have had a small number of people who have had coronavirus symptoms; they have been tested but have tested negative. Although there have been a small number of people with symptoms, none has tested positive. This is a personal data issue. The number of people is in the single digits.

Q66 **Mike Hill:** I understand that. Do you have any colleagues who are shielding?

Jim Juffs: Yes, we have. I can give you a rough percentage of people who are shielding. It is around 20% of staff. That is an issue for us overall. If you are thinking about our operational capacity to manage this situation, shall I give you a bit of background on what we are doing?

Q67 **Mike Hill:** Yes, because that will lead into my next question anyway, which is about the effects of staff absence on the DMO's ability to do its work.

Jim Juffs: The picture at the moment is that we have about 130 staff. When we saw that the coronavirus was starting to take hold in the UK, because we have this objective of keeping the Exchequer funded on every single UK business day, and we take that very seriously, we organised ourselves in a manner that would provide the maximum resilience based on our small number of staff.

For example, we worked on a split site basis so that we could contain any infection outbreak to a particular grouping. Both of those groups were able to operate the DMO's core functions on a continuous basis. That was the core aim. When the lockdown came, which was three months ago today, we were ready to send most staff, over 90%, home. They have been working from home ever since. It required from us a change of operational procedures and our control practices to facilitate them in continuing to do their jobs from home. That has been a success from our point of view, because we have not had any downtime operationally in terms of delivering our core objectives.

We had an extensive gilt auction calendar to deliver, and for that reason we have skeleton teams running auctions from our main sites, to deliver those to the necessary standard of quality and operational risk reduction. That is where we are at the moment. We are still operating on that hybrid basis and that, combined with the low level of sickness and the fact that shielding people can still work, operate and contribute to what we are doing, has worked reasonably well for us.

Q68 **Mike Hill:** To recap on that, you are saying that staff are successfully working from home. Does that mean no staff are required to go into work to operate the DMO gilt auctions?

Jim Juffs: We have a team running gilt auctions on the latter basis. There are other functions being managed from home, and gilt auctions are being supported from home by other non-frontline functions.

Q69 **Mike Hill:** I understand that. You are saying that the auctions remain secure in those circumstances.

Jim Juffs: They are as secure as we can make them, but, yes, so far we have managed to deliver every auction and our cash management operation to the same quality that we had hitherto in the non-lockdown situation. The answer is yes.

Again, we need to be careful because we are a very small team. We need to make sure that the team remains well and that, looking ahead, we can shuffle the pack, so that we are not so dependent on critical individuals that we cannot carry on the business and deliver the rest of our schedule.

Q70 **Mike Hill:** For the home-working, you have the relevant risk assessments in place. For the return-to-work scenario, relevant risk assessments are in place, and even for the workers who are currently shielding who will be encouraged to come back to work. They are going to come back to work in a safe environment.

Jim Juffs: That is the plan. We have a programme of work for return to the office. You are right that it starts with the risk assessment. The risk assessment will cover every aspect of what we need to do. The safety of each individual will be the number one objective. We will not be doing anything that will put our key staff at risk. We will be approaching the return-to-office programme with the first activity being completing the risk assessment to the standards that we need.

Q71 **Mike Hill:** That would include the Covid risk assessment, of course.

Jim Juffs: Yes, indeed.

Q72 **Mike Hill:** I will take it as read that that has all been discussed with the relevant trade unions as well.

Jim Juffs: There is no trade union representation at the DMO.

Chair: Can I thank our witnesses very much indeed for their contributions this afternoon? We have had a very detailed and in some places very technical discussion, but nonetheless it has been absolutely fascinating. I think I speak for the whole Committee when I say that. That is a reflection on the peculiar group that we are, but equally it is a testament to the clear and comprehensive answers that you have given to our questions. We are grateful for that.

Cometh the crisis, cometh Sir Robert and the DMO. You will continue to play a very central role in what happens within our economy. We are going to be showing a close interest in your activities and would like to keep closely in touch. Sir Robert, you have given us a very intriguing glimpse of your offices, behind your shoulders there, which I gather are fairly inconspicuous for such an extraordinarily important organisation. It occurs to me that we might ask if it is possible, when we get back to more normal times, to pay you a visit, to learn a bit more and see those small rooms where those extraordinary amounts of money are borrowed.

With that, can I once again thank all three of our panellists very much indeed for your contributions this afternoon, which have been hugely valuable?