

AFME response to HMT/UK DMO Consultation Paper on UK T-Bills

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on The UK Treasury bill market: A consultation documents, issued by HMT and the UK DMO. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We summarise below our high-level response to the consultation.

Overview

This response sets out AFME's recommendations for strengthening the UK T-bill market, we note that underlying demand is robust but that improvements in market functioning and secondary market liquidity are essential to unlocking greater participation. Members highlight the value of a more predictable and steady issuance profile, alongside ensuring that repo and regulatory frameworks can effectively support higher T-bill volumes. Our response also identifies opportunities to broaden institutional and retail engagement through enhanced access, investor education and targeted product design. Key policy and operational proposals include exploring, floating rate issuance, increasing the frequency of taps, introducing a 1-year T-bill along with building out the yield curve across a range of maturities, and developing a DMO standing repo facility to support dealer intermediation and improve overall market efficiency.

A: T-bill investor base and demand factors

- There is broad and strong support for a meaningful increase in UK T-Bill issuance, recognising the important role these instruments play in addressing the current gap at the short end of the yield curve.

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- A more predictable and steady issuance pattern across a range of maturities, is essential to maintaining market engagement, ensuring a consistent flow, including across fiscal reporting periods, is viewed as a key requirement.
- Consideration could be given to regulatory adjustments of the capital and leverage ratio requirements as a means of incentivising greater bank intermediation; this could include the use of leverage ratio exemptions to alleviate balance sheet constraints on dealers.

B: T-bill investor base (retail)

Measures to promote retail participation in UK T-bills are currently limited, additionally secondary market liquidity is often characterised by wider spreads relative to the gilt market.

Retail demand can be further supported through increased awareness (for example a national advertising campaign explaining the benefits and risks), alongside a stronger focus on financial literacy and access to money management and investment education targeted engagement with retail investors, will build on the existing underlying interest in gilts.

- Other jurisdictions provide substantially easier retail access, for example retail investors in the US can purchase T-bills directly from the government via *TreasuryDirect* or through the majority of brokerage platforms and in Italy instruments such as BTP Valore, BTP Italia, and BTP Futura are specifically designed for retail participation, featuring targeted incentives, preferential tax treatment and broad distribution channels including banks and post offices.
- High minimum investment thresholds limit access to T-bills. An enhanced market infrastructure that enables smaller transaction sizes and incentives for platforms to offer reduced cost/free trading or custody of T-bills will help drive demand.
- There are however some key issues to consider, retail investors tend to hold to maturity, which may marginally affect market liquidity, in addition there is possible competition with commercial bank deposits and NS&I for household savings.
- The UK's scale and market characteristics suggest that any shift would be limited, predominantly influencing the smaller segment of rate sensitive, mobile retail capital. Heightened sensitivity to market volatility and political events among retail investors may constrain investment flows, however the issuance of staggered maturities could help mitigate the impact.

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C: Primary market demand

The key constraint arises not from insufficient demand, but from challenges related to market functionality and secondary market liquidity.

- Key drivers to support stronger primary demand include.
 - Introducing floating rate issuance could broaden the investor base, particularly for participants seeking to hedge interest rate risk but unable to use swaps.
 - Increasing the frequency of taps in existing ISINs could improve market liquidity and provider dealers with greater flexibility to manage short positions.
 - Increased retail issuance, which is predictable, frequent and builds out the full spectrum of the curve (I.e. across a range of maturities such as 1, 3, 6, 9 months), with the inclusion of 1-year T-bills
 - Whilst retail investors can access tenders via their Treasury Bill Primary Participants (TBPPs) the minimum bid size is £500,000 with minimum bid increments. This initial participation threshold is far beyond the reach of most retail investors, meaning direct primary market access is effectively closed to them.
 - Primary demand could be further supported by the potential inclusion of T-bills in the reference asset pool for sterling-denominated stablecoins, thereby creating an additional, technology driven source of structural demand.

D: Secondary market activity (cash and repo)

- If shorter-dated issuance is expanded, it will be important to confirm that the repo market can effectively accommodate this, specifically that collateral schedules fully recognise the increased volume of T-bills and that Bank of England Short Term Repo (STR)/Indexed Long-Term Repo (ILTR) operations continue to accept them. These may appear operationally minor, but they are critical to ensuring that both trading and financing in the secondary market function smoothly

Key drivers of enhanced secondary market liquidity include

- Establishing a Standing Repo Facility where the DMO lends T-bills, as they do with Gilts.
- Exploring how the Bank of England repo framework could better accommodate the specific characteristics of T-bills.
- Adjusting regulatory treatment, for example through leverage-ratio exemptions, to alleviate balance sheet constraints for dealers.
- Engage market makers to gather feedback on requirements for Treasury Bill Primary Participants (TBPPs)

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E: Maturities of T-bills offered at tenders

- There is strong support for introducing a 1-year T-bill, which would align the UK with the EU (including Germany, France, Italy, and NGEU one-year papers) and US 52-week bill. Such an instrument would provide the DMO with additional funding flexibility and broaden the investor base, appealing to corporate treasuries and short-duration funds by offering lower duration risk compared with gilts and lower credit risk relative to commercial paper. It would also align with the 1-year fixed rate ISA market, potentially attracting a share of the retail demand.
- The issuance of T-bills should support the development of a yield curve across multiple short-term maturities including 1, 3, 6 and 9 month tenors.
- Additionally, more frequent taps of existing ISINs could enhance secondary market liquidity by increasing the overall amount outstanding.

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

- Realistic, clear and well-defined Primary Dealer guidelines are essential. As the market continues to develop, any requirements introduced should not be permanent, but instead be subject to regular review, with a best-efforts approach to providing liquidity for investors being factored in.
- Consideration should also be given to targeted incentives to strengthen liquidity provision, taking into account the relatively underdeveloped nature of the secondary market which limits liquidity and at times can constrain dealers' market making ability.

G: DMO repo market activity

- The introduction of a DMO Standing Repo Facility would be an important catalyst for enhancing secondary market liquidity by easing the balance sheet constraints associated with dealers' inventory holdings. Such a facility would also need to be aligned with any requirements applicable to Treasury Bill Primary Participants (TBPPs).
- Whilst the UK DMO could extend its existing Standing Repo Facility (SRF) to support the lending of T-bills, this would need to be complemented by clear eligibility and operational readiness across the Bank of England's Sterling Monetary Framework Facilities. In particular the Operational Standing Facility (OSF), Short-Term Repo (STR) and Indexed Long-Term Repo (ILTR), should be able to accommodate T-bills effectively alongside the continued evolution of the broader cash-repo market as T-bill issuance increases.

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- Any expansion of the SRF should operate in a manner consistent with the DMOs lending of Asset Purchase Facility (APF) held gilts, using voice RFQ via chat message followed by manual trade booking. Pricing for the lending of APF bonds should remain aligned with prevailing market levels.

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