

NOTE FOR THE RECORD

Funding Policy

I spoke to Tim Lankester in the Treasury to follow up progress on Sir Alan Walters' minute of 9 May. Work in the Treasury is proceeding under two heads:-

i) market structures of selling techniques

The Bank are currently consulting 40 potential primary dealers who will operate under the new system for selling gilts. Following these discussions they will draft a document for issue in October. The change in market structure will open the way for selling techniques e.g. auctions, which were ruled out by the existing jobbing system.

ii) new instruments

The Treasury are preparing a paper for the Chancellor to discuss a number of new instruments e.g. a call option on a long gilt, a short bond to be issued by the corporate sector, a subscription certificate convertible into a gilt (this arose out of discussion of a subscription certificate convertible into BT shares), and a modified variable gilt. A short corporate bond faces a number of problems, partly arising from how it would be taxed and partly from the constraints of the Banking Act which restricts the activities of deposit takers. Such a bond could be used

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to establish whether there is a market outside the banking system for short dated paper. If there were it could open the way for a very short gilt. The Treasury are also examining under what circumstances and in what form the authorities could re-enter the market for long dated gilts.

AS

9 July 1984