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Dear Sir/Madam,

**Re: UK Treasury Bill market consultation**

We are writing to provide a long-term investor perspective on your Consultation on the UK Treasury Bill (T-bill) Market. We believe the UK T-bill market is characterised by important market failures that inhibit the ability of asset owners and managers from participating, which both curtails investors' opportunities to earn attractive yields on shorter-duration assets while also reducing the Government's access to a substantial pool of capital. We provide suggestions for practical steps we believe the UK Government could take to improve market access.

By way of background, Sarasin & Partners LLP is a London-based asset manager with £17.2 billion under management as of the end of December 2025. The majority of this is managed on behalf of UK based clients, and around half of the total is managed on behalf of UK charities. We are long-term in our investment philosophy and aim to act as responsible stewards of our clients' capital. A key feature of our stewardship approach is to advocate for policies and market behaviours that support a more sustainable financial market and, thus, long-term returns for our clients.

Currently, Sarasin & Partners does not regularly participate in either the primary or secondary T-bill market, but we would like to. We believe there is a strong alignment of interests between our UK client base looking for safe and attractive returns and the UK Government's need for a large and liquid pool of capital. However, currently the UK T-bill market suffers from poor liquidity, small trade sizes, and wide bid-offer spreads compared to peer markets in the US, limiting its attractiveness to end investors, and thus its role as a source of funding for the Government.

We face a number of obstacles that have their roots in market design choices and regulations that impede banks' incentive to facilitate a liquid secondary market. Consequently, we invest in alternative short-term instruments such as Sterling liquidity funds offered by large asset management firms. In total, as of December 2025 we had allocated about £1bn to cash and cash-like investments.

We provide detailed responses to the Consultation document below. We would draw your attention to the following suggestions, which we view to be most important and actionable to unlocking a more efficient T-bill market:

- Capital adequacy requirements review: We would welcome a review as to whether the UK's capital adequacy framework (and specifically the Leverage Ratio and Net Stable Funding Ratio requirements) is unintentionally undermining banks' willingness to participate in the T-bill market, thereby reducing market liquidity and accessibility to end-investors.

- Auction mechanics review: We would encourage the DMO to review the T-bill auction structure, including considering multi-tiered auctions and re-tapping bills once issued to support market liquidity.
- Tax reform: A review of the differential tax treatment between Gilt and T-bills to explore the unintended consequences for T-bill market participation.
- Increase the size of issuance: We would encourage an increase in the weight of T-bills in the Government's overall debt issuance to help support a deeper and more liquid market

We hope our comments prove helpful. We would be happy to respond to any follow up queries, and would welcome the opportunity to discuss our submission with the DMO.

Yours sincerely,

Subitha Subramaniam, PhD  
Partner, Head of Investment Strategy

## UK TREASURY BILL MARKET – CONSULTATION QUESTIONS

Below we provide responses to those consultation questions where we have something to contribute.

### A: T-bill investor base and demand factors

#### Q1: How do you use T-bills and what is your T-bill investment strategy?

We rarely use T-bills. We would like to use them more, but we face a number of obstacles in accessing these securities, which we detail in our responses to questions below.

In terms of our cash investment strategy, small cash balances that are required to fund day-to-day liquidity needs are typically held with the custodian of each investment portfolio that we manage. The benefit of this is ease of access and liquidity.

For more significant cash balances, or cash balances that are held with a slightly longer time horizon in mind, we invest these based on the following criteria:

- Yield
- Credit risk/security
- Ease of access/liquidity
- Precision and flexibility – e.g., ability to choose 1-month vs 6-month maturity etc

In principle, we would like to allocate a proportion of these more significant or longer-term cash balances to T-bills, however, in practice we generally overlook T-bills in favour of third-party money market funds for the following reasons:

- Higher yield available on maturity-matched third-party money market funds;
- T-bills tend to be available only through Friday auctions, where we lack certainty over fulfilment; and
- Poor secondary market liquidity.

Of course, given that third-party money market funds take an element of credit risk in their underlying investments, it is natural that they can offer a slight premium yield to T-bills on a maturity matched basis. However, T-bills, in theory, are attractive to us due to the flexibility they offer. We see the following use cases where, if liquidity permits, UK T-bills are likely to be favourable investments for our clients:

- Upwards-sloping yield curve offering higher yields for ‘terming out’. The ability to term out – or hold the T-bill to maturity – allows us to have the choice of locking in higher yields for longer, benefiting from a scenario where the curve is steeply upward sloping.
- Certainty. Locking into a fixed rate for a specific period provides certainty – whether that is to offset a specific liability, or to guard against future interest rate changes.
- Counterparty risk. Whilst credit risk of third-party cash funds is small, the risk is even lower for T-bills.

**Q2: Please provide a description of the current and potential investor base for T-bills as you understand it, including investors' relative levels of involvement in the market and the benefits of these instruments to different types of investors.**

The primary market for T-bills is currently dominated by Banks and Money Market Funds. The secondary market is slightly more diverse and has participants including insurance companies as well as Treasury and hedge funds using the market for sources of funding and repo transactions.

As the DMO recognises, this limited pool of investors accessing the T-bill market could be substantially broadened to include asset managers such as ourselves and asset owners like pension schemes. As we explain elsewhere, we believe the lack of participation is not a result of low inherent demand for T-bills but rather a consequence of a range of impediments that limit access and increase transaction costs.

The challenges that we face in accessing the UK T-bill market is unhelpful to our clients' goals in the following ways:

- Reduction in choice
- Reduction in precision and flexibility of investment – it is more challenging to lock in a known cash rate for 3/6 months etc.
- Depending on the shape of the yield curve, reduction in yield.

Given the level of issuance that is required to fund the UK government on an ongoing basis, the obstacles to asset managers/owner participation is clearly sub-optimal from both an investor's and a UK tax-payer's perspective.

**Q3: What other financial instruments might investors view as substitutable with T-bills, and what factors influence the attractiveness of T-bills relative to these alternative investments?**

Other investable assets substitutable with T-bills include short-dated Gilts, Money Market Funds (MMFs), Certificates of Deposit, overnight and monthly term deposits and call account deposits.

Characteristics that increase the attractiveness of T-bills are:

- Lower credit risk (vs bank deposits)
- Reduced fund-level risks (vs MMFs)
- Lower duration risk and less asset price volatility under stress (vs Gilts)
- More precise ladder of available investment options (vs all)
- Tax treatment (Gilts are often more attractive to private clients)

However, as emphasised throughout this submission, there are a number of impediments restricting our involvement in this market, the most important of which is a lack of access to daily and deeper liquidity versus alternative cash solutions.

**Q4: What current and/or prospective future regulatory requirements could affect demand for T-bills (including any changes in demand for GBP-backed stable coins)? To what extent do these factors impact different types of investors in different ways?**

We would stress that we are an asset manager and not a bank or an expert in stable coins. However, we offer some comments below on the key regulatory barriers we perceive and possible solutions.

### **Regulatory obstacles to bank market participation**

We believe that there are important regulatory requirements that inadvertently limit banks' willingness to participate in the market for T-bills and thus reduce market depth and liquidity for end-investors like ourselves.

We would highlight, in particular, capital adequacy regulations affecting bank intermediaries, which make holding or intermediating T-bills relatively capital-inefficient:

- **Leverage ratio** – While banks' holdings of T-bills are positive for meeting Liquidity Coverage Ratios (they are treated as High Quality Liquid Assets), the leverage ratio is more problematic. Banks must hold capital against total exposures, regardless of risk, which – all else equal – incentivises more risky asset holdings (to generate higher returns). In short, the lower risk (and relative return) associated with T-bills acts as a drag on banks' return opportunities, given the leverage ratio constraint. The more T-bills held, the lower their return.
- **Net Stable Funding Ratio** – To be compliant, banks are required to seek longer-term funding. If banks fund T-bill acquisitions with shorter term liabilities, this will penalise their NSFR, indirectly disincentivising T-bill holdings.

These requirements dampen counterparties' willingness to offer primary and secondary liquidity to potential investors. These perverse incentives facing banks are accentuated in times of market volatility, when investment banks often adopt a "risk-off" stance to protect their own balance sheets. This is the opposite of what is required, namely the banks to provide liquidity to help absorb and mitigate shocks.

Another problem inhibiting asset manager access to T-bills is the tendency for banks to hold these securities to maturity, thereby taking them off their trading book to reduce P&L volatility.

### **Obstacles to end-investor participation**

We would point to the following key factors impeding end-investor participation in the T-bill market:

- **Auction mechanics and uncertainty:** An obstacle facing end-investors like ourselves relates to auction mechanics. It can be sub optimal (or mandate rules limit ability) to take on auction uncertainty – both in terms of yields and the volume of T-bills allocated (if at all).
- **Tax treatment of T-bills versus Gilts:** The Treasury's current approach of treating any realised profit from T-bills as income for tax purposes makes these securities being less attractive for end-investors than Gilts.
- **Size of issuance** – Currently the UK Government relies most heavily on Gilt issuance. Just 3% of total debt issuance is in the form of T-bills versus roughly 17% in the US.

### **Possible actions**

Given the above regulatory and market design obstacles, we would welcome:

- **Capital adequacy requirement review:** A review as to whether T-bills could be carved out, or awarded a lower penalty, within the framework to address perverse incentives for banks' participation in the market, without weakening important capital adequacy protections.
- **Auction mechanics review:** We would encourage the DMO to consider reviewing their auction structure, including considering multi-tiered auctions and re-tapping bills once issued.

- Tax reform: A review of the differential tax treatment between Gilt and T-bill treatment would be worthwhile to explore the unintended consequences for T-bill market participation.
- Increase the size of issuance: We would encourage an increase in the weight of T-bills in the Government's overall debt issuance to help support a deeper and more liquid market.

We note that possible lessons may be learned from the US T-bill market, which is deeper and more liquid, reflecting greater direct access by end investors. We highlight advantages of the US market structure in Question 11 below.

### C: Primary market demand

**Q9: What are the most important factors which influence demand for T-bills in the primary market? How might different types of investors rank these factors?**

As we have set out in Question 4, currently we believe there are three core factors that are impeding end-investor participation in T-bill markets:

1. Capital adequacy-related rules which fail to treat T-bills as lower risk assets, and thereby reduce incentives for banks to support the secondary market; and
2. Auction design: with uncertainty in order fulfilment.
3. Limited secondary market liquidity.

**Q10: What structural and/or regulatory factors affect, or could affect in the future, primary market activity in T-bills on both the demand- and supply-sides?**

Please see answer to Question 4.

**Q11: How does T-bill primary market activity in the UK compare to peer sovereign markets and what factors explain any differences?**

Taking the US market as a comparison, there are a number of factors which help to explain its higher level of liquidity and market depth. While some reflect the size and dominance of the US market, and thus is not something the UK could replicate, other factors could offer lessons, including:

- US T-bills dominate repo collateral whereas for the UK, Gilts remain the dominant asset in the repo market. This limits the importance of T-bills for certain investor types who utilise the repo market.
- The US Treasury runs a multi-tier auction system, with wider participation of end investors (asset managers, MMFs, pensions, corporates, households) – this means Primary dealers are a backstop, not sole gateway. Such an approach could offer investors a choice between fill certainty and yield maximisation.

**Q12: Is there a limit on the extent to which primary market demand for T-bills can be maximised and, if so, what are factors that drive this?**

We believe demand for T-bills is artificially held back due to regulatory and market design features described in previous questions (see, in particular, Question 4). We would encourage the DMO to run a

full analysis of the market landscape, in particular vs third party money market funds, to assess scope for potential demand. Key factors that investors consider include:

- a) Yield vs cash at custodian, and other alternatives such as money market funds
- b) Certainty of fulfilment
- c) Ability to gain secondary market liquidity
- d) Counterparty security

**D: Secondary market activity (cash and repo)**

**Q13: What structural and/or regulatory factors affect, or could affect in the future, secondary market activity in T-bills on both the demand- and supply-sides?**

Please see response to Question 4 above. In summary:

**Supply side restrictions:**

- Bank capital adequacy regulation, which disincentivizes bank support for secondary market.

**Demand side restrictions:**

- Tax treatment of T-bills vs Gilts for private investors

**Q14: To what extent is there potential for a larger amount of secondary market activity in T-bills, including in outright transactions?**

In our view, there is substantial potential. We believe boosting secondary market activity is the key to unlocking the T-bill market overall. Once the market is seen as liquid it will attract greater participation and, in turn, further liquidity.

**Q17: There are typically 26 T-bills in issue at any given time. What is the minimum issuance size of individual T-bill ISINs at which you would consider investing in the secondary market?**

Rather than size per se, the key feature that matters is liquidity. If we could easily buy or sell in clips of £10 to £20 million at a time, with access to £100 million clips, this would unlock demand. While liquidity and size are positively related – and therefore larger size is likely to help generate greater liquidity – we would encourage the focus to be on liquidity provision in the first instance, rather than simply size.

As mentioned in other questions, we discuss the markets regularly with sell side banks. One bank that we have spoken to emphasises that liquidity tends to build in gilts at £5 billion-plus issue sizes, suggesting that issuance size is important for secondary market viability.

**Q18: How does T-bill secondary market activity in the UK compare to peer sovereign markets and what factors explain these differences?**

As outlined under Question 11, the US T-bill market is significantly larger and more liquid than the UK. The broad investor and broker participation is attracted by the depth and choice in the market. The US has a \$6.5 trillion market in T-bills with maturities spanning 1 month through to 12-month maturity, whereas the UK has a £90 billion market in T-bills, with maturities over 1, 3 and 6 months.

We detailed in Question 4 and elsewhere the key factors we believe that have resulted in this divergence. We furthermore, note that the UK would appear to have scope to rebalance its debt issuance towards T-bills. The US T-bill market makes up c17% of total debt issuance, while in the UK T-bills represent just c3% of total debt issuance.

#### E: Maturities of T-bills offered at tenders

##### **Q19: Could the introduction of T-bills with different maturities at tenders attract new structural demand?**

Our key message here is before trying to do too much, the first focus has to be on improving liquidity of what we have. We believe that asset managers tend to view T bills as cash instruments and cash is defined as 6m or less maturity. There is currently a wide range of bills with sub 6-month maturity. We do not feel like further maturities are required in this market. Indeed, the risk is a wider range of maturities decreases the liquidity further, via some form of demand substitution effect. If this happened, we would view this as a backwards step.

##### **Q20: To what extent could the sale of T-bills with a wider range of maturities displace demand for existing T-bills or for gilts with similar maturities?**

We do not believe there is an issue with the current range of maturities on offer. Indeed, if there was an active secondary market, there would be a large range of maturity options available.

For portfolio management, we tend to view T-bills and Gilts as separate. For example, a short-dated Gilt and a T-bill of exactly equivalent maturity would be treated differently in our performance attribution systems – with a Gilt being treated as a fixed-income investment, and a T-bill treated as cash. Many fund managers will have the same issue – so whilst theoretically equivalent, Gilts and T-bills are often put in different “buckets”, which is an important nuance to understand.

As such we do not believe a wider range of maturities is required – rather an active secondary market is required by address obstacles identified in Question 4.

##### **Q22: How long would it take for you to consider T-bills with different maturities as part of your investing strategy?**

Please see the answer to question 20.

H: Other views

**Q31: How would you expect market functioning to be affected by any changes in T-bill issuance, given their short duration?**

Please see the answer to question 20.

**Q32: In your view, what is likely to be the most effective combination of reforms to increase primary participation and secondary market activity?**

- Greater issuance
- Focus on supporting banks to create secondary market liquidity (or using institutions within the governments direct or indirect control to create liquidity)

**Q33: Please share any other views you have about T-bills, including around the expansion and deepening of the T-bill market and associated costs, benefits, and risks.**

Overall, our view is that addressing the dysfunctionality in the T-bill market will benefit both the UK Government and end-investors. Currently, demand for shorter-term T-bills is not being met, so increasing T-bill issuance will meet this need, while enabling the Government to access a larger pool of capital.