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UNITED KINGDOM

DEBT MANAGEMENT OFFICE

Operational Circular

Accrued Interest Calculations on 4¼% Treasury Stock 2032 until 7 December 2000

16 May 2000

CALCULATION OF ACCRUED INTEREST ON 4¼% TREASURY STOCK 2032 UNTIL 7 DECEMBER 2000

4¼% Treasury Stock 2032 will be auctioned on Wednesday 24 May 2000 for settlement on Thursday 25 May 2000. The gilt will not pay a coupon on 7 June 2000 but will pay a first coupon on 7 December 2000, which will be slightly larger than the normal semi-annual coupon to account for the additional interest from 25 May 2000 to 7 June 2000. The value of the coupon payable on 7 December (a "long" coupon) will be £2.275956 per £100 nominal.

The formula for the calculation of accrued interest during a long first coupon was set out in Appendix III of 'Changes to Gilt Market Trading Conventions' (March 1998).

(1) Settlement between 25 May 2000 and 7 June 2000 (both inclusive).

The accrued interest (per £100 nominal) will be calculated as follows:

$$AI = \frac{\text{Settlement date} - 25\text{ May }2000}{7\text{ June }2000 - 7\text{ December }1999} \quad \text{x} \quad \frac{4.25}{2}$$

This figure is then scaled up to reflect the nominal of the trade and then rounded to the nearest penny on the transaction.

Example:

Trade size (nominal):   £1,000,000.00
Settlement date: 1 June 2000

$$AI = \frac{1\text{ June }2000 - 25\text{ May }2000}{7\text{ June }2000 - 7\text{ December }1999} \times \frac{4.25}{2} \times \frac{1,000,000.00}{100}$$

(rounded to the nearest penny)

$$= \frac{7}{183} \times \frac{4.25}{2} \times \frac{1,000,000.00}{100}$$

(rounded to the nearest penny)

= £812.84

The accrued interest (per £100 nominal) will be calculated as follows:

$$AI = \left(\frac{7\,June\,2000 - 25\,May\,2000}{7\,June\,2000 - 7\,December\,1999} + \frac{Settlement\,date - 7\,June\,2000}{7\,December\,2000 - 7\,June\,2000} \right) x \frac{4.25}{2}$$

This figure is then scaled up to reflect the nominal size of the trade and then rounded to the nearest penny on the transaction.

Example:

Trade size (nominal):   £1,000,000.00
Settlement date: 19 September 2000

$$AI = \left(\frac{7\,June\,2000 - 25\,May\,2000}{7\,June\,2000 - 7\,December\,1999} + \frac{19\,September\,2000 - 7\,June\,2000}{7\,December\,2000 - 7\,June\,2000} \right) x \frac{4.25}{2} x \frac{1,000,000.00}{100}$$

(rounded to the nearest penny)

$$= \left(\frac{13}{183} + \frac{104}{183} \right) \times \frac{4.25}{2} \times \frac{1,000,000.00}{100}$$

(rounded to the nearest penny)

= £13,586.07

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[1] 28 November 2000 is the gilt's ex-dividend date.

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(3) Settlement between 29 November 2000 and 7 December 2000[2] (both inclusive).

The accrued interest (per £100 nominal) will be calculated as follows:

$$AI = \left(\frac{\text{Settlement date} - 7\,\text{June 2000}}{7\,\text{December 2000} - 7\,\text{June 2000}} - 1 \right) x \frac{4.25}{2}$$

This figure is then scaled up to reflect the nominal of the trade and then rounded to the nearest penny on the transaction.

Example:

Trade size (nominal):   £1,000,000.00
Settlement date: 4 December 2000

$$AI = \left(\frac{4\,\text{December 2000} - 7\,\text{June 2000}}{7\,\text{December 2000} - 7\,\text{June 2000}} - 1 \right) x \frac{4.25}{2} x \frac{1,000,000.00}{100}$$

(rounded to the nearest penny)

$$= \left(\frac{180}{183} - 1 \right) \times \frac{4.25}{2} \times \frac{1,000,000.00}{100}$$

(rounded to the nearest penny)

= ⁻£348.36

Interest on 4¼% Treasury Stock 2032 will accrue in the usual manner from 8 December 2000.

Any queries on this Operational Circular should be directed to Mark Deacon (020 7862 6516) or Gurminder Bhachu (020 7862 6512) at the UK Debt Management Office.

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[2] Ex-dividend settlement.