

22/98

**16 NOVEMBER 1998**

## **PRESS NOTICE**

### **GILT-EDGED CONVERSION: FROM 8% TREASURY STOCK 2009 INTO 5¾% TREASURY STOCK 2009**

The final result of the above conversion offer is that acceptances have been received for 83.8% (£2,890,324,755.68) of the £3,450 million of 8% Treasury Stock 2009 outstanding prior to the offer.

The amount of 5¾% Treasury Stock 2009 outstanding prior to the conversion was £2,500 million; the amount outstanding following the conversion will be approximately £5,877,344,460.60. The amount of 8% Treasury Stock 2009 outstanding following the conversion will be £559,675,243.82.

8% Treasury Stock 2009 has not been added to the list of stocks for which the United Kingdom Debt Management Office ("DMO") will make a bid on request from a Gilt-Edged Market Maker ("GEMM"). GEMMs will continue to submit daily reference prices to the DMO.

### **CONVERSION OFFERS RESPONSE TO CONSULTATION**

Following the completion of this second conversion offer of the year, and the recent consultation exercise, the DMO is also today announcing a change to the timetable for future conversion offers.

The DMO document issued on 5 August 1998 on the rationale and methodology of conversion offers, sought views on a number of issues, including the conversion timetable. The DMO received a number of responses from market participants and representative bodies as well as interested official organisations.

### **The Initial Two-Week Notice Period**

A near unanimous response was that the initial two-week period between the announcement of the offer and the announcement of the conversion terms was **not** necessary for the successful implementation of such offers. Indeed, most market participants felt that this period was positively unhelpful as it made the candidate stock difficult to trade and value in the two-week notice period.

Accordingly, the DMO has decided that for future conversion offers it will set the terms for the conversion and open the offer at the *same time* as the initial announcement, thereby shortening the overall conversion timetable by two weeks.



## Methodology for Setting the Conversion Terms

The conversion consultation document stated that the DMO set the conversion terms primarily in accordance with the valuation of the two stocks' cash flows (for forward settlement) given by the DMO's yield curve model at the time of the terms being published. This was designed to avoid the possibility of the conversion terms being distorted by market conditions in the period immediately before the terms were set. This was the basis on which the terms for the 11¾% Treasury 2003-07 and 8% Treasury 2009 conversion offers were set.

In light of the elimination of the initial two-week notice period, the DMO can henceforth modify its conversion pricing methodology. Since the market will not have advance notice of the conversion offer, some account can be taken of the positions of both the source and destination stocks relative to the yield curve. The DMO will continue to use its yield curve to provide a benchmark ratio for the offer but it may also, at its discretion, take some account of the cheap/dear characteristics of both stocks.

### The Three-Week Offer Period

The consultation paper also raised the question as to whether the three-week period over which the offer was open could be shortened either for all holdings, or possibly only the majority of holdings. There was relatively little response from market participants to the first of these questions, but the firm opinion was that all holders should be treated alike. Given that it is impractical for personal holders to be contacted by post with the conversion terms and expected to respond in less than the current three weeks, this element of the conversion timetable will remain unchanged. It will apply to all holders of the candidate stock.

### Indicative Conversion Timetable

Given the change outlined above, the timetable for a future conversion offer where settlement coincides with the coupon date of the source stock is now:

- **C-21 days:** announce conversion stocks and terms. Inform holders;
- **'C'-day** (ex-dividend date of source stock): offer closes, preliminary result announced;
- **C+7** working days: coupon date of the source stock; DMO announces final result and states whether source stock is to be treated as a rump; creation of further amount of destination stock; settlement.

The timetable for a future conversion offer that does not coincide with a coupon date of the source stock is now:

- **C-21 days:** announce conversion stocks and terms. Inform holders;
- **'C'-day:** offer closes, preliminary result announced;
- **C+1 to 3** working day(s)<sup>1</sup>: DMO announces final result; creation of further amount of destination stock; settlement. DMO also states whether source stock is to be treated as a rump.

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<sup>1</sup> Depending on the number of retail holders of the source stock.



## NOTE TO EDITORS

This Notice gives details of the provisional amount of 8% Treasury Stock 2009 converted into 5¾% Treasury Stock 2009 as a result of the gilt-edged conversion offer, the terms of which were announced on 22 October 1998. Provisional figures on the amount of 8% Treasury Stock 2009 to be converted into 5¾% Treasury Stock 2009 were announced on 13 November 1998. It also sets out a change to the timetable for future conversion offers.

