



United Kingdom
Debt Management
Office

Exchequer cash management in the United Kingdom

Cash Management Operational Notice & Treasury Bill Information Memorandum

1 September 2017

Exchequer cash management in the United Kingdom

Operational Notice – September 2017

This combined Operational Notice and Information Memorandum sets out the arrangements for Exchequer cash management operations undertaken by the UK Debt Management Office (DMO). It outlines the typical cash management operations currently undertaken, although these may vary from time to time. This Operational Notice and Information Memorandum replaces the previous version, issued on 25 July 2017, and will come into effect from 1 September 2017.

Firms or institutions wishing to instigate or maintain a dealing relationship with the DMO are requested to familiarise themselves with the content of this Operational Notice and Information Memorandum, and to sign agreements that they accept the terms of the relevant section(s).

The DMO may change this Operational Notice and Information Memorandum from time to time and the acceptance of this Operational Notice and Information Memorandum will be deemed also to be acceptance of any future changes, unless the DMO is informed otherwise.

Any enquiries about this document should be addressed to:

Cash Dealers / Risk Team

UK Debt Management Office

Eastcheap Court

11 Philpot Lane

London EC3M 8UD

cash.dealers@dmo.gsi.gov.uk

riskteam@dmo.gsi.gov.uk

+44 (0) 20 7862 6517

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1. Introduction

The government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. HM Treasury and the DMO work together to achieve this objective.

HM Treasury's role in this regard is to make arrangements for a forecast of the daily net flows into or out of the National Loans Fund (NLF); its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time.

The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; its objective in so doing is to minimise the costs of government cash management while operating within risk limits approved by ministers.

Cash management objective

"The DMO's cash management objective is to minimise the cost of offsetting the government's net cash flows over time, while operating to the government's risk appetite. In so doing, the DMO will seek to avoid actions or arrangements that would:

- a) undermine the efficient functioning of the sterling money markets, or*
- b) conflict with the operational requirements of the Bank of England for monetary policy implementation."*¹

The DMO conducts its cash management operations in accordance with the provisions contained in this Operational Notice and Information Memorandum, and it will act at all times in accordance with its published objectives and operate as required in order to achieve these objectives, and in accordance with the UK Money Markets Code published on 26 April 2017.

Cash management counterparty selection

The DMO deals with a wide range of counterparties on a bilateral basis and values those counterparties with whom it can transact regularly, including such counterparties' participation in weekly tenders for Treasury bills and in bilateral dealings in money market instruments.

¹ Paragraph D.5 of the *Debt Management Report 2017-18*, published 8 March 2017 and available on the DMO website.

Counterparties must be financial institutions or intermediaries regulated by the Financial Conduct Authority (FCA) and (where applicable) the Prudential Regulation Authority (PRA) (or their EEA equivalent). A complete list of DMO counterparties is not published, but a list of recognised Treasury Bill Primary Participants is available on the DMO's website.

The key features of a Cash Management bilateral counterparty relationship with the DMO are some or all of the following:

- access to the DMO's Treasury bill tenders and bilateral issuance facility;
- access to the DMO's Repo / Reserve Repo ad hoc tenders;
- access to the DMO's Standing Repo Facility;
- the ability to deal with the DMO on a bilateral basis in one or more of the instruments listed in this Operational Notice; and
- consultations with the DMO on money market issues and the DMO's policies.

The DMO and the respective counterparty need to have performed the following actions before a trading relationship can begin:

- completion of any relevant legal and other documentation²;
- acceptance of the terms contained within this Operational Notice;
- acceptance of the UK Treasury Bills Information Memorandum (for participation at Treasury bill tenders);
- confirmation of the counterparty's regulatory status and details of its legal constitution;
- agreement of margining arrangements;
- provision of Standard Settlement Instructions and lists of authorised signatories and contacts;
- where appropriate, establishment of a direct, dedicated telephone link to the DMO's dealing desk; and
- completion of the DMO's due diligence checks.

Expressions of interest in becoming a DMO Cash Management counterparty should be made in the first instance to the DMO's cash management dealing desk: cash.dealers@dmo.gsi.gov.uk (tel. 020 7862 6527).

² The DMO's GMRA documentation (where the counterparty intends to enter into repo or reverse repo transactions with the DMO) and/or ISDA documentation together with a letter confirming the counterparty's agreement to adhere to the relevant section(s) of this and subsequent versions of the Operational Notice.

2. Range of Instruments

The DMO trades in a range of selected instruments with cash management counterparties and other market participants or intermediaries, and scores its exposures to any issuer or counterparty against its internal credit usage and counterparty limits. The DMO's Dealing Arrangements - as set out in Annex A - shall apply in the case of transactions entered into by the DMO.

The principal instruments in which the DMO transacts for cash management purposes are set out below. The DMO may revise the range of instruments used from time to time, in which case any revised list would be published in the money markets section of the DMO's website at:

www.dmo.gov.uk.

Instruments

Cash deposits

Gilts (including in the form of delivery by value (DBV³) and General Collateral (GC), including strips⁴)

UK Treasury bills

Selected sovereign and short-term debt⁵

Selected bank bills

Selected Certificates of Deposit

Selected Commercial Paper

Selected corporate bonds or short-term instruments

The DMO may also enter into short-term currency swaps and transact in forward rate agreements, interest rate swaps, interest rate forwards or futures, in each case with a tenor of up to 12 months.

Eligible currency denominations

For the most part, DMO transacts in sterling. It will not transact in currencies other than sterling, euro, US dollars and Japanese yen.

³ The DMO intends to use and will only accept the Unstripped British Gilts (UBG) class of Delivery by Value (DBV).

⁴ A reference to strips or a strip is a reference to Separate Trading of Registered Interest and Principal Securities (STRIPS).

⁵ Debt instruments issued by high quality issuers, including supranational and foreign governments.

Eligible maturities

The DMO may transact in repo/reverse repo transactions in gilts, European government bonds and/or corporate bonds, Treasury bills, certificates of deposit, commercial paper and short-term debt with counterparties for maturities of up to 1 year, and make outright purchases and sales of gilts (including strips) within 12 months of maturity.

3. Unsecured Deposits

The DMO may deal on an unsecured cash basis both as a lender and a borrower. Transactions may be entered into on a bilateral basis or, where the counterparty does not have an established relationship with DMO, through a recognised broker, subject to any appropriate due diligence and/or credit assessment. The DMO's Dealing Arrangements - as set out in Annex A - shall apply in the case of transactions entered into by the DMO.

Counterparties wishing to enter into a relationship with the DMO in respect of unsecured deposits must be regulated by the FCA and (where applicable) PRA (or their EEA equivalent) unless otherwise agreed by the DMO in its sole discretion. Counterparties wishing to borrow from the DMO on unsecured terms must also satisfy the requirements of the DMO's credit policy, as determined from time to time. Entities wishing to deposit monies with the DMO through a third party agent must themselves be regulated by the FCA and (where applicable) PRA (or their EEA equivalent) unless otherwise agreed by the DMO in its sole discretion.

Interest rates quoted by DMO dealers will be determined by prevailing market rates for the relevant maturity and the DMO's own cash position at the time.

4. Repo/Reverse Repo

Subject to the appropriate agreements⁶ being in place, the DMO may transact in repos and reverse repos of gilts (including strips) and other selected securities with up to 12 months to maturity. These may be bilateral transactions or conducted through an intermediary trading

⁶ At the time of publication the DMO uses the TBMA/ISMA Global Master Repurchase Agreement – 2011 Version.

platform, exchange or central counterparty. The DMO's Dealing Arrangements - as set out in Annex A - shall apply in the case of transactions entered into by the DMO.

The DMO refers to the amount of a repo/reverse repo transaction in sterling cash terms, as opposed to nominal securities terms (i.e. £10 million at the start leg of a repo will signify £10 million of cash, not nominal, of securities). A right of substitution is not normally expected or given by the DMO. If substitution rights are given or taken, this will be confirmed at the initial point of trade. For all reverse repo transactions other than Delivery-By-Value (DBV) transactions, the DMO requires counterparties to identify the securities being given in a timely manner.

The DMO marks to market its exposures to its repo counterparties and will call for margin, if required, on a daily or more frequent basis. Where initial margin (a "haircut") is to be applied on a repo or a reverse repo transaction, the DMO will follow the calculation methodology set out in the International Capital Market Association market practice guidelines.

As the issuer of gilts, the DMO also operates Standing and Special Gilt Repo Facilities, whereby, subject to the appropriate agreements being in place, additional amounts of individual gilts may be created, for lending purposes only, to ease actual or potential scarcities of gilts in the repo market. The Standing Repo Facility is available to approved DMO cash management counterparties, and to Gilt-edged Market Makers (GEMMs) that have signed the relevant documentation.

5. Other Dealings

Subject to its cash management requirements and to the appropriate agreements⁷ being in place, the DMO may deal in short-term currency swaps with a tenor of up to twelve months. The DMO may exceptionally also consider other transactions, such as forward rate agreements, interest rate swaps, and interest rate forwards or futures, in each case with a tenor of up to twelve months. All foreign currency exposures will be hedged back into sterling.

The DMO marks to market its exposures to its swap counterparties and will call for margin, if required, on a daily or more frequent basis. Such margin will typically be in the form of gilts or pre-agreed euro-denominated sovereign debt. The DMO will call for margin from, and will return margin to, any counterparty, but the DMO will not post margin to any counterparty (i.e. where its

⁷ At the time of publication the DMO uses the ISDA Master Agreement – 1992 Version including the 1995 English Law Credit Support Annex.

exposure to any counterparty results in a negative figure, its exposure is deemed to be zero).

The DMO's Dealing Arrangements, as set out in Annex A, shall apply in the case of contracts entered into by the DMO.

6. UK Treasury Bills

UK Treasury bills are sterling denominated unconditional obligations of the UK government with recourse to the NLF and/or the Consolidated Fund. They are issued from, and are liabilities of, the Debt Management Account or of the NLF. Treasury bills are zero-coupon eligible debt securities. The DMO issues Treasury bills through regular weekly or ad hoc tenders, or it may issue bills bilaterally to recognised counterparties, subject to certain conditions.

Full details regarding the DMO's Treasury bill operations can be found in the ***Treasury Bill Information Memorandum*** that accompanies this Operational Notice.

7. Other Information

Settlement arrangements

Unless otherwise specified, all transactions with the DMO are settled on the value date and in sterling. The DMO is prepared to transact in the instruments listed above, provided that settlement can take place in CREST or its equivalent, Clearstream or Euroclear, and according to the DMO's settlement requirements and timetable. For any enquiries regarding settlement please contact the DMO's Settlement Team: settlements@dmo.gsi.gov.uk or telephone 020 7862 6542 or 020 7862 6565. The DMO employs the Bank of England as its settlement agent.

For those counterparties who are successful at any UK Treasury bill tender (regular or ad hoc), the DMO will, if requested, exchange written or electronic confirmations shortly after the tender result is published. Settlement will be by Delivery versus Payment via CREST.

Near maturity gilt purchases or sales may be settled through CREST or Euroclear.

End of day banking arrangements

The DMO will target a cumulative weekly balance on its account at the Bank of England. The target balance is intended to provide a cushion against unanticipated cash inflows or outflows and the balance may vary from day to day; the target balance may vary from week to week, depending on uncertainty about forecast cash flows across the account.

Alternative operational procedures

In relation to any market operation, the DMO reserves the right (but is not obliged) to amend, without prior notice, the operational requirements and procedures set out in this Operational Notice and Information Memorandum, including without limitation by the extension of deadlines and the specified methods of communication, to such extent as the DMO, in its sole opinion and determination, considers necessary. The DMO shall not be obliged to publish details of any such amendments.

Jurisdiction and governing law

Subject as set out below, the English courts shall have exclusive jurisdiction to settle any dispute which might arise in connection with this Operational Notice or any transaction entered into under the provisions contained therein or any non-contractual obligations or matters arising therefrom or in connection therewith. However, the DMO reserves the right, to the extent allowed by law, to bring proceedings in any other court or concurrent proceedings in any number of jurisdictions. This clause is for the benefit of the DMO and is in addition to any governing law provision in any other agreement.

This Operational Notice and any notices making amendments to the Operational Notice together with any transaction entered into under its provisions, and any non-contractual obligations or matters arising therefrom or in connection therewith, are governed by and shall be construed in accordance with the laws of England.

Revisions

The right is reserved to amend or supplement this Operational Notice by further notices given from time to time. Any notice given under this paragraph will be published by the DMO in such manner as the DMO considers appropriate.

Annex A: Dealing Arrangements

General terms and conditions for dealing

- Transactions may be agreed by means of telephone calls to the DMO's dealing desk, or may be undertaken by means of a proprietary electronic trading or communications system. Details regarding the systems used by the DMO may be obtained by counterparties or prospective counterparties from the DMO's dealing desk.
- Transactions undertaken with the DMO are irrevocable, unless both parties are in agreement.
- Telephone calls to the DMO's dealing desk and settlements desk will be recorded⁸. The DMO's record of a deal will prevail in the event of any dispute or misunderstanding.
- In no event shall the DMO be liable for any loss suffered by any party as a result of a delay, failure or any other issue arising in connection with Bloomberg Auction System (BAS) or any other electronic trading platform or communications system.
- The counterparty will be wholly responsible for ensuring that, in relation to all transactions and its business relationship with the DMO, it has complied fully with all legal and regulatory restrictions and obligations applicable to it in all relevant jurisdictions.

⁸ The DMO's dealing room voice system is a BT ITS-based dealerboard system. Counterparties will need to order a private digital voice circuit via IPC between their own and the DMO's dealing rooms, with themselves as the "A" end and the DMO as the "B" end. Counterparties are free to select the carrier of their choice subject to suitable presentation at the DMO's site. The DMO currently has telecommunications services from COLT Telecommunications and BT.

Annex B: DMO Announcement Pages

Information	Thomson Reuters	Bloomberg
Cash management announcements	DMO/CASH01	DMO9<GO>
Weekly Treasury bill tender announcements and results	DMO/CASH11	DMO10<GO>
Ad hoc tenders and results	DMO/CASH16	DMO11<GO>
Treasury bill reference prices	0#UKTB=DMO	DMO12<GO>

Annex C: DMO Contacts

Cash dealing desk – participation/dealing issues

020 7862 6527 (cash.dealers@dmo.gsi.gov.uk)

020 7862 0060 (T bill tenders)

Settlements team – settlement and custody issues

020 7862 6542 (settlements@dmo.gsi.gov.uk)

020 7862 6565 (settlements@dmo.gsi.gov.uk)

Risk management unit – legal/compliance issues

020 7862 6523 (riskteam@dmo.gsi.gov.uk)

020 7862 6625 (legalteam@dmo.gsi.gov.uk)

Press/media issues

020 7862 6532 (pressofficer@dmo.gsi.gov.uk)

Telecommunications

020 7862 6573



United Kingdom
Debt Management
Office

UK Treasury Bills

Information Memorandum

1 September 2017

UK Treasury Bills Information Memorandum

1 September 2017

This Information Memorandum sets out the main features of Treasury bills as a financial instrument, how they are issued, settled and traded and through whom. This Information Memorandum replaces the version issued on 25 July 2017, and will come into effect from 1 September 2017.

The DMO may change this Information Memorandum from time to time and the acceptance of this Information Memorandum will be deemed also to be acceptance of any future changes.

Any questions on this Information Memorandum should be raised with the DMO's cash management dealing desk.

Contact details:

cash.dealers@dmo.gsi.gov.uk (tel no. 020 7862 6527)

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1. Introduction

The UK Debt Management Office (DMO) regards sterling Treasury bills as an intrinsic component in the UK government's stock of marketable debt instruments, alongside gilts, as a financing instrument within short-term debt sales.

Treasury bills also play an important role in the Exchequer cash management operations to manage intra-year cash positions. HM Treasury's remit to the DMO each year specifies any planned variation in the stock of Treasury bills that shall be deemed as contributing (positively or negatively) to government financing over the financial year. However, the DMO may vary the actual amount in issuance throughout the year and over year end, according to its own Exchequer cash management needs.

Description of the instrument

All UK Treasury bills are sterling denominated unconditional obligations of the UK government with recourse to the National Loans Fund (NLF) and the Consolidated Fund. They are issued from, and are liabilities of, the Debt Management Account. Treasury bills are zero-coupon eligible debt securities⁹. The DMO issues Treasury bills through regular weekly or ad hoc tenders, or it may issue bills bilaterally upon request from recognised counterparties, subject to certain conditions.

Treasury bills may be issued with a minimum maturity of 1 day and a maximum maturity of 364 days. However, regular weekly tenders are typically for maturities of 1 month (approximately 28 days), 3 months (approximately 91 days) and 6 months (approximately 182 days). Further issues of Treasury bills will carry the same ISIN code and be fungible with any existing bills of the same maturity date.

Treasury bills are transferable in multiples of one penny.

Treasury bills can be used as collateral in the Bank of England's Open Market Operations and in Real Time Gross Settlement (RTGS) and are included in the main traded class of gilt Delivery by Value (DBV) for repo transactions.

Treasury bills can be held in the CREST and Euroclear central depositories.

⁹ The term "eligible debt security" is the term used in the *Uncertificated Securities Regulations 2001* (SI 2001/3755), as amended, to refer to those uncertificated securities, which may be issued into CREST, creating rights and obligations which (so far as practicable) correspond to those in relation to paper-based negotiable money market instruments.

Pricing

Treasury bills are issued by the DMO – at regular weekly or ad hoc tenders, or through a bilateral transaction - on a money market yield basis, with the quotation of yield being up to three decimal places. They will be settled according to the following price/yield formula:

$$P = \frac{N}{1 + \left(\frac{y \times n}{36500}\right)}$$

where: P = Settlement proceeds in pounds sterling
 N = Nominal value in pounds sterling
 y = Yield, quoted as a percentage to three decimal places
 n = Number of calendar days from the settlement date to the maturity date

The settlement proceeds P will be rounded to the nearest penny for each transaction (0.5 pence is rounded up).

2. Weekly Treasury Bill Tenders

Treasury bills are issued at regular weekly tenders, held by the DMO on the last business day of each week (i.e. usually on Fridays) for settlement on the following business day (i.e. usually on Mondays). The DMO announces the size of the each tender and the maturity of bills on offer at the preceding week's tender. These announcements are made on the DMO's wire service pages (see Annex B of the Cash Management Operational Notice). Following the final weekly tender at the end of each calendar quarter, the DMO will issue a notice outlining the maturities of Treasury bills available in each week of the following quarter.

At each weekly tender the DMO will normally issue one-, three- and six-month bills. Once a maturity date is established by the issue of bills, any further issues of bills, by any issuance method, with the same maturity date will be treated as a further issue of, and fungible with, the original bills for that maturity date.

If Treasury bills are due to be issued or to settle in weeks including bank holidays, the exact maturity of the bills at issue will be adjusted to ensure repayment on the next following business day.

The DMO may also issue Treasury bills to assist the Bank of England in its general management of the sterling money markets. If requested by the Bank of England, the DMO would consider adding a further amount of bills to a tender and in which case it would identify, in its usual announcements, any amount being issued for the Bank of England. Such bills will be fungible with bills for the same maturity date issued by the DMO at its weekly tender or as a result of any bilateral transaction.

Since April 2008, the DMO has also issued Treasury bills to the Bank of England, formerly for use in its *Special Liquidity Scheme*, and subsequently for the *Funding for Lending Scheme*, which enables UK banks and building societies to swap, temporarily, assets which have become illiquid in exchange for Treasury bills. The *Funding for Lending Scheme* has been extended until January 2018. Treasury bills issued in support of the *Funding for Lending Scheme* are not included in the month end totals of Treasury bill stocks reported on the DMO website. Further details of the *Funding for Lending Scheme* can be found on the Bank of England website at: www.bankofengland.co.uk/markets/Pages/FLS/default.aspx.

Bidding at weekly Treasury bill tenders

Treasury bill tenders are open to all eligible DMO cash management counterparties and Treasury bill Primary Participants. The key features of the Treasury bill tender process are as follows:

- Subject as follows, bids by participants must be submitted electronically by means of the Bloomberg Auction System (BAS). The DMO may agree, but is not obliged, to accept bids from any participant by telephone, such agreement to have been obtained before such bids are submitted. Notwithstanding this, the DMO may in its absolute discretion require some or all participants to submit some or all bids by telephone; the DMO will use reasonable endeavours to give participants reasonable advance warning of such requirement. Participants may make bids either on their own account or on behalf of clients. The Dealing Arrangements, set out in Annex A of the Cash Management Operational Notice, shall apply in the case of contracts entered into by telephone.
- Bids must be for a minimum of £500,000 nominal of bills. Above this minimum, bids must be made in multiples of £50,000.
- There is no limit to the number of bids that may be submitted by means of BAS by any one participant, and bids submitted via BAS may be subsequently amended or cancelled, up until the close of bidding. Bidders may not, however, subscribe for more than the tender size in one single bid.

- All bids must specify the maturity of bills being bid for, and must be made on a percentage money market yield basis¹⁰. Bids may be made up to three decimal places, and must include the nominal amount bid for at each yield.
- Tenders are held on a competitive bid yield basis.
- All bids must be received by the pre-announced deadline (usually 11:00am London time) on the day of the tender.

Processing of bids

At the close of bidding the DMO will:

- Rank bids received for each maturity on offer by yield in ascending order. Bills will then be allotted to those bids that are at, or below, the yield deemed by the DMO to be the highest accepted yield (the cut-off point). Bids at the highest accepted yield may only receive a proportion of the nominal amount of bills bid for, scaled on a pro-rata basis, according to the volume of bids remaining to be allocated to clear the tender;
- Reserve the right not to allot the total amount of bills on offer, to cancel any tender and not to allot any bills (although it would consider this only in exceptional circumstances), and to reject and scale bids. At the cut-off point a scaling ratio will be calculated and applied to bids at the highest accepted yield. The scaling ratio will be rounded down to the nearest 0.0001% with the residual retained by the DMO and held in its official portfolio of collateral available for cash management purposes;
- Publish the results of the tender on its wire services pages and on its website www.dmo.gov.uk as soon as practicable after the close of bidding (which is normally 11:00am London time). The results will set out the amounts applied for and allotted respectively at each maturity, the lowest, average and highest accepted yields, the scaling ratio at the highest accepted yield together with the residual amount retained by the DMO¹¹; the results announcement will also include the amounts on offer at each maturity at the next tender, together with an outline of any ad hoc tenders to be held in the following week.
- The public announcement of the tender results will contain sufficient information for bidders to be able to calculate their firm's own individual successful allocations, however DMO dealers will also subsequently confirm firms' individual allocations electronically via

¹⁰ See the section on pricing for the settlement convention the DMO uses for these purposes.

¹¹ The amounts allotted to bidders and the DMO will be rounded to the nearest £0.001m.

the BAS platform, which will usually be a few minutes after the general public results announcements (but not beforehand).

Successful bids at each tender are not legally deemed to have been 'accepted' until such time that DMO publishes the results on its wire services pages and/or website or via a press notice.

Settlement arrangements

- Settlement of the Treasury bill allocations are made by means of Delivery versus Payment (DvP) in CREST on the specified settlement date, unless in any particular case the DMO agrees a different method of settlement.
- Treasury bills may be held in CREST in nominal multiples of one penny and may be transferred in multiples thereof in secondary trading.
- Onward transactions in Treasury bills may also be settled in Euroclear and/or Clearstream.

Registration

Treasury bills will be held in the CREST system, which will constitute the central register of ownership for Treasury bills. Legal title will be evidenced by the entry of a given number of units against a holder's name in the relevant CREST record. This record will constitute the "Operator register of eligible debt securities" to be maintained by CREST.¹² It is also possible to hold Treasury bills in Euroclear by means of its participation in CREST.

Failure to settle

The DMO reserves the right to claim compensation from any successful bidder in the event that payment is not received on the due settlement date for whatever reason.

3. Ad Hoc Treasury Bill Tenders

In addition to issuing Treasury bills at weekly tenders, the DMO may also on occasion issue Treasury bills with maturities from 1 to 364 days on an *ad hoc* basis. Bills issued through ad hoc tenders will be identical in every respect to those issued via weekly tenders and may be additional issues of existing Treasury bills or they may be new issues for 'standard' or 'non-

¹² *The Uncertificated Securities Regulations 2001* (SI 2001/3755), as amended, provide that the "Operator register of eligible debt securities" shall be prima facie evidence, and in Scotland sufficient evidence unless the contrary is shown, of any matters which are directed or authorised to be inserted in the register by the Regulations.

standard' maturity dates. There are also some important distinctions in the bidding, settlement and administrative arrangements.

Timetable of ad hoc tenders

The DMO will usually announce the intention to hold (an) ad hoc tender(s) in the wire services announcement of the weekly Treasury bill tender results of the preceding week (see Annex B of the Cash Management Operational Notice for DMO's announcement pages). That announcement would provide details of the type of tender(s), the day(s) in the following week on which the tender(s) will be held and a guide to the expected maturity and amount. The precise details of the maturity and amount will be announced on the morning of the tender(s). Up to two ad hoc tenders could be held per day, although it is not envisaged that this would be a regular occurrence. Ad hoc tenders may be for settlement on the same day, or alternatively one or two business days following the tender date (T+1 or T+2), in sterling. Tenders may be held on successive business days, if necessary. The DMO envisages that the following timetables would be used for ad hoc tenders with same day settlement:

	<u>Slot 1</u>	<u>Slot 2</u>
Announcement & opening of tender	8:30am	10:00am
Close of tender	8:45am	10:15am
Aim to announce results by	9:00am	10:30am
CHAPS payments in by	1:30pm	1:30pm
CREST movements by	close	close

The DMO would not anticipate conducting any ad hoc tenders in the second slot on gilt auction days or days when Bank of England Monetary Policy Committee decisions are expected.

Ad hoc tenders for non-same day settlement dates may follow a different timetable, to be specified at the time of final announcement.

Bidding at ad hoc tenders via BAS

- Subject as follows, bids by participants must be submitted electronically by means of BAS. The DMO may agree, but is not obliged, to accept bids from any participant by telephone, such agreement to have been obtained before such bids are submitted. The DMO may do so, for example, where any participant does not have access to BAS. Notwithstanding this, the DMO may in its absolute discretion require some or all participants to submit some or all bids by telephone; the DMO will use reasonable

endeavours to give participants reasonable advance warning of such requirement. Participants may make bids either on their own account or on behalf of clients. The Dealing Arrangements set out in Annex A of the Cash Management Operational Notice shall apply in the case of any contracts entered into by telephone.

- Bidding at all ad hoc tenders will be on a competitive bid yield basis expressed up to three decimal places.
- Bids must be for a minimum of £5 million nominal at each yield and in £1 million nominal multiples thereafter.
- Each bid must specify: the maturity being bid for, the yield of each bid and the quantity of each bid. Separate bid sets must be submitted for each maturity, where more than one bill is being offered.
- Bids must be received by the latest time specified as such in the DMO's cash management announcement.
- The DMO reserves the right not to allot the total amount on offer, although it would consider this only in exceptional circumstances, and to reject and/or scale bids.

Ad hoc tender results

The DMO aims to release the result of an ad hoc tender as soon as practicable after the close of the tender. At the cut-off point (the highest accepted yield in respect of the quantity of bills offered) a scaling ratio will be calculated in the same way as for the weekly Treasury bill tenders and applied to all bids at the highest accepted yield. The scaling ratio will be rounded down to the nearest 0.0001%.

The announcement of the result for each tender will contain details of the amount allocated / accepted, the average accepted yield, and the yield and the average weighted scaling at the cut-off point.

Settlement of ad hoc tenders

For those participants who are successful at any ad hoc tender, the DMO, in addition to exchanging written or electronic confirmations, will confirm by telephone the settlement and custody details shortly after the tender result is published. Settlement will be DvP via CREST for the value date specified at the time of announcement, in pounds sterling, unless in any particular case the DMO agrees a different method of settlement.

4. Bilateral Treasury Bill Issuance

The DMO may issue Treasury bills bilaterally, including on request from any of its eligible cash management counterparties.

Bills issued in this way will only be created in circumstances where the DMO is satisfied that such issuance is consistent with its own cash management operational requirements.

Prices quoted by DMO dealers will be determined by prevailing market rates for the relevant maturity and the DMO's own cash position at the time.

Requests for bilateral issues of Treasury bills

The DMO may consider requests from counterparties for the creation of new or existing bills, with a minimum time to maturity of one-day. Only bills with a maturity which differs by at least five working days from the bills issued to the market at the regular tenders either preceding or succeeding any bilateral trade will be eligible to be issued in this way.

The minimum size of any such request is £500,000 nominal. There is no explicit limit on the maximum size of any bilateral transaction, or on the size of any Treasury bills, whose size is increased as a result of the operation of this facility, although the DMO retains the right to refuse or limit the maximum size of any such request, according to its own cash position and/or internal risk limits at the time.

Where there are matching maturity dates, bills issued in this way will add to, carry the same ISIN code and be fungible with, any existing stock of bills of that maturity date, whether previously issued via regular or ad hoc tender, bilaterally and/or created for the Bank of England's *Funding for Lending Scheme*.

Settlement of bilateral Treasury bill issuance

Treasury bills to be issued on the same day as a request is made must be transacted and notified to the DMO settlements team before 10:30am on the request date.

Treasury bills to be issued on a subsequent business day to the day a request is made may be transacted and notified to the DMO settlements team after 10:30am on the request date.

Reporting of bilateral Treasury bills issuance

All bilateral Treasury bills transacted will be included in the month end totals of Treasury bill stocks reported on the DMO website.

5. Further Information

Participation at tenders

A list of financial institutions that have agreed, subject to their own due diligence, to bid at Treasury bill tenders on behalf of investors is maintained in the Money Markets section of the DMO's website: www.dmo.gov.uk. These institutions may also provide secondary dealing levels for Treasury bills.

All participants at Treasury bill tenders must be registered financial institutions, regulated by the FCA and (where applicable) PRA, or their EEA equivalent, and subject to its rules and guidance in their activities.

Eligible bidders may tender in their own name and/or on behalf of clients. It will be the responsibility of the client and the eligible participant to agree bilaterally the payment and custody arrangements for any Treasury bill holdings acquired by tender.

Expressions of interest in becoming a bidder at Treasury bill tenders should be made in the first instance to the DMO's cash management dealing desk (020 7862 6527, or e-mail cash.dealers@dmo.gsi.gov.uk). Applicants should be aware of the DMO's terms of counterparty selection outlined in its Cash Management Operational Notice, along with any systems, telecoms or time constraints that may be involved.

6. Taxation

Withholding tax

All payments to holders of Treasury bills will be made without withholding or deduction for or on account of any taxes of whatever nature imposed or levied by or on behalf of the United Kingdom or by any political sub-division of or taxing authority in the United Kingdom unless required by law.

7. Jurisdiction and Governing Law

Subject as set out below, the English courts shall have exclusive jurisdiction to settle any dispute which might arise in connection with Treasury bills or any bid for Treasury bills or any non-contractual obligations or matters arising therefrom or in connection therewith. However, in relation to any bid for Treasury bills, the DMO reserves the right, to the extent allowed by law, to bring proceedings in any other court or concurrent proceedings in any number of jurisdictions. This clause is for the benefit of the DMO.

This Information Memorandum and any notices making amendments to the Memorandum, together with any transaction entered into under its provisions, are governed by and shall be construed in accordance with the laws of England.

8. Revisions

The right is reserved to amend or supplement this Information Memorandum by further notices given from time to time; the DMO will endeavour to give adequate notice of any material changes. Any notice given under this paragraph will be published by the DMO in such manner as the DMO considers appropriate.