

MARKET NOTICE - POST-AUCTION OPTION FACILITY

1. From 1 June 2009, all UK gilt auctions – conventional and index-linked – include an additional post-auction option facility, whereby all successful direct bidders – GEMMs and clients – shall be offered the right to purchase up to an additional percentage (currently 10%) of the bonds they bought at the relevant auction, at the published average accepted price in multiple price format auctions, or at the published strike price in auctions of uniform price format.
2. Following each auction, the DMO shall calculate each GEMM firm's option entitlement, based on that firm's successful bids – non-competitive, own account and/or those on behalf of clients – and input this allowance into the Bloomberg Auction System (BAS), which will appear on dealers' screens once the take-up window is opened.
3. The option take-up window shall be open for a specified time period (normally 2 hours, from 12:00 noon until 2:00pm) and GEMMs have until the cut-off time to inform the DMO electronically via BAS whether they wish to take-up some or all of their entitlement, by inputting the size required (up to the individual permitted maximum) in the (white) non-competitive box of their bid input screens. Dealers may cancel or amend these 'bids' as they wish, and only those 'live' at the cut-off shall be counted.
4. GEMMs are under an obligation to pass on the right to the option to any client bidder(s) that submitted successful bids in the auction through their firm, and, as a result, dealers should factor client take-ups into the single amount of options that they 'bid' for during the take-up window. However, in the event that a client does not wish to take up his/her allowance, the GEMM may opt to take up that allowance for its own trading book.
5. After the designated take-up deadline has passed, the DMO shall sum up the total take-up of the option facility across all GEMMs, and publish this total as soon as practicable, on its wire services pages and website. This announcement shall also contain the revised total nominal amount in issue of the relevant gilt.
6. The DMO shall only create an additional amount of the gilt equal to the amount of options taken up.
7. Settlement will normally take place on the following day, in line with the T+1 convention in gilts. GEMM dealers taking up option entitlements should book a single purchase trade as a normal secondary market transaction with the DMO, at the option strike price and separate from any instructions relating to the auction, and, where relevant, sales ticket(s) to clients who have exercised their options to purchase stock, at the same price.

8. The post-auction option facility will not be offered in the event that the auction itself is uncovered. For the avoidance of doubt, 'uncovered' in this respect means cases where either (i) insufficient bids were received, or (ii) where the DMO has exercised its discretion not to accept bids that it judged to have been at an unacceptably deep discount to the prevalent market level.

UK Debt Management Office

22 May 2009