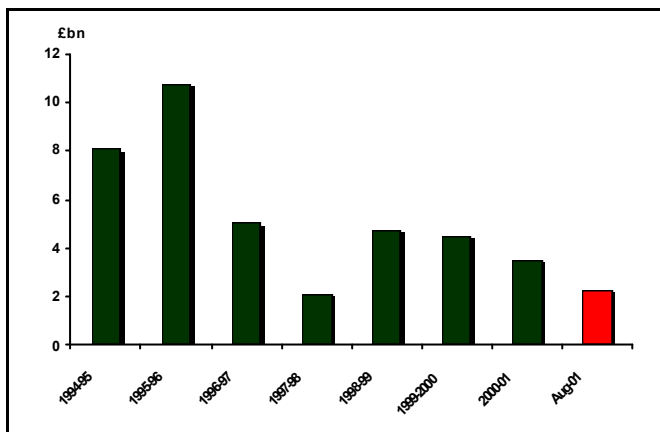


# UK Sterling Treasury Bill Update

The DMO expects Treasury bills to play an increasing role in its cash management operations in the future and to represent a larger component of the UK Government's stock of marketable debt. As announced at Budget time in March this year, the DMO expects to increase the stock of Treasury bills by £5.0 billion to £8.3 billion during 2001-02. To facilitate this, the DMO is changing the arrangements relating to the issuance by tender of Treasury bills. These changes will take effect from 5 October 2001.

As part of these changes, the DMO has established a list of primary participants in the Treasury bill market. These are banks or financial institutions that have agreed to place bids at Treasury bill tenders on behalf of other parties, subject to their own due diligence and controls. On request, the primary participants will also provide their customers with secondary dealing levels for Treasury bills. A current version of the list of primary participants will be displayed on the DMO's web site at [www.dmo.gov.uk](http://www.dmo.gov.uk). The DMO's cash management counterparties and a limited number of wholesale market participants who have established a telephone bidding relationship with the DMO are also eligible to bid directly in Treasury bill tenders.

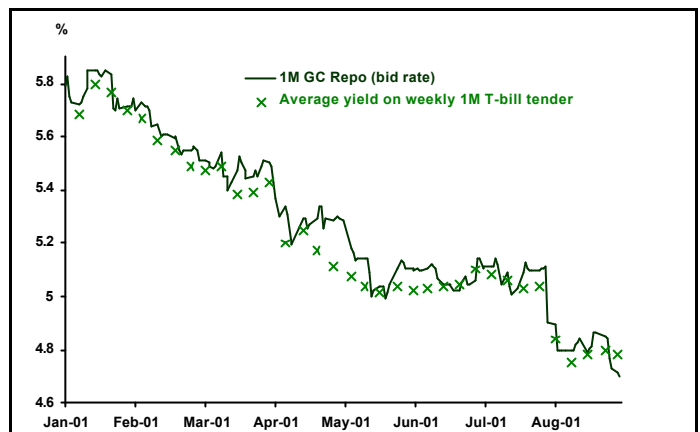
Further details of the arrangements for Treasury bill tenders are contained in the newly published UK Treasury Bills Information Memorandum and the updated Exchequer Cash Management Operational Notice, which are also available on the web site. The other key changes are that the closing time of the weekly Treasury bill tender will be 11am (previously 12.30pm); that individual bids must be of a minimum size of £500,000 (previously £1 million); and that successful bidders in tenders will be able to arrange with the DMO to take delivery of their Treasury bills via Euroclear or, as currently, CMO.



**1. Treasury bill stock at financial year end**

Chart 1 shows how the stock of UK Treasury bills has evolved over recent years. At the end of August 2001 the stock of 1-month Treasury bills was £600mn, with £1600mn of 3-month bills.

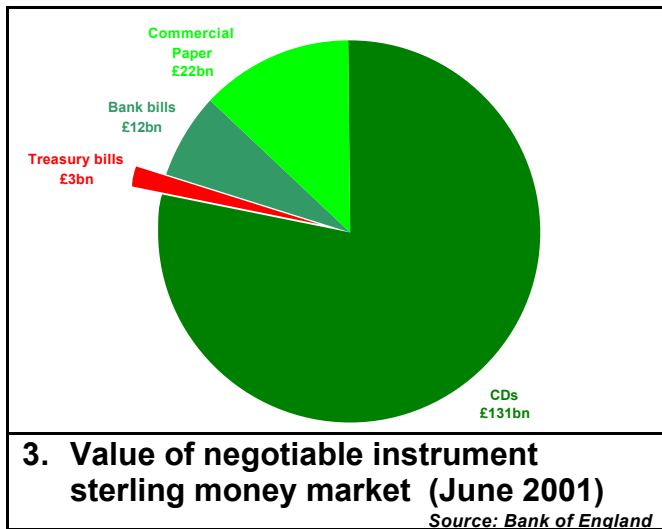
Weekly 1-month Treasury bill issuance in the last year has ranged from £150mn to £750mn. The weekly tenders of 3-month bills have, since 10 August, been for £200mn; previously they had been for £100mn. Treasury bill tenders take place



**2. GC rates and the average yield on 1M structured Treasury bill tenders during 2001**

on the last working day of each week (usually a Friday), the amount on offer at the tender having been announced at the end of the previous week's tender. Trades settle on the following business day. Chart 2 shows the average rates achieved at 1-month Treasury bill tenders during 2001. Bidding at these tenders tends to be around and usually slightly below, gilt GC bid levels. This has been the case for both the 1-month and the 3-month Treasury bills.





Around 30% of the outstanding value of the sterling money market consists of negotiable instruments, the remainder being approximately equally composed of secured (gilt repo) lending and unsecured interbank lending.

At end-June 2001 Treasury bills comprised 1.8% of the outstanding market value of sterling money market negotiable instruments (see chart 3). This proportion has decreased over recent years, as the capitalisation of the money market as a whole has increased and the stock of Treasury bills has declined.

This pattern is in line with other EU countries where Treasury bill issuance has declined during

periods of reduced financing requirements and national debt managers have tended to lengthen the average maturity of debt portfolios, through the issuance of medium and long term bonds rather than bills.

The Treasury bill market is likely to undergo further significant changes when sterling money market instruments (MMIs) are dematerialised, currently scheduled to occur in 2002. This will allow the integration of Treasury bill settlement into CREST so that holders will not need to maintain CMO accounts separately from their CREST accounts; it will also open the way for the wider use of Treasury bills as repo market collateral and offer other flexibilities, including fungibility and re-opening of issues. Further information on these proposed changes is available on the Bank of England's web site [www.bankofengland.co.uk](http://www.bankofengland.co.uk) and on CRESTCo's web site [www.crestco.co.uk](http://www.crestco.co.uk).

Updated data, press releases and other information are available on the wire services listed below and on the DMO web site at [www.dmo.gov.uk](http://www.dmo.gov.uk). Further updates on UK sterling Treasury bills will be contained in the DMO's Quarterly Review.

### DMO wire services

Information	Reuters/Bridge/ADP	Telerate	Topic	Bloomberg
Index	DMO/INDEX			DMO<GO>
Cash management announcements	DMO/CASH01	15700 to 15709	44660 to 44669	DMO9<GO>
Treasury bill tender information	DMO/CASH11	15710 to 15711	44670 to 44671	DMO9<GO>
Ad-hoc tender information	DMO/CASH16	15715 to 15716	44675 to 44676	DMO9<GO>

### Contacts

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Legal/compliance issues	020 7862 6523
Press/media issues	020 7862 6532