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PRESS NOTICE

REVISION TO THE TERMS OF THE DMO STANDING REPO FACILITY

The DMO is today announcing a change to the terms under which its standing repo facility will be available to its regular dealing counterparties.

- With effect from Tuesday 1 April 2008, the rate applicable to borrowing gilts under the facility will be determined by deducting a fixed margin of 300 basis points from the prevailing Bank of England Official Bank Rate.
- The fixed margin at which the facility is available will be kept under review and may be changed, for example in the event of significant changes to the Official Bank Rate. The DMO will always aim to give three months notice of changes to the method of calculating the applicable rate.

These new terms will succeed those which have been in place since June 2000, under which the borrowing rate was determined not by deducting a fixed margin from the Official Bank Rate but by applying a scaling factor of 10% to the Official Bank Rate. The modification announced today updates the arrangements. The level chosen for the fixed margin is intended to reflect the DMO's continuing intention that the facility should not substitute for normal market mechanisms. In practice, assuming the current Bank of England Official Bank Rate of 5.50%, under the new terms the facility will be available at 2.50% (0.55% under the existing terms).

NOTES TO EDITORS

The existing standing repo facility was introduced on 1 June 2000 (the intention to launch it having been announced on 22 February 2000) and followed a consultation exercise launched on 17

September 1999. The facility was introduced in order to ensure that market makers could be assured of being able to access and deliver any gilt at any time, albeit at a price, hence maintaining their ability to make two-way prices in the secondary market and avoiding the prospect of delivery failures. The context for the introduction was concern about delivery fails in the repo market and extreme tightness of available gilts in the repo market, potentially leading to a breakdown of the market-making mechanism and/or a reluctance to deal in the futures market – which might in turn have had an adverse impact on the functioning of the cash gilt market.

Under the facility, any Gilt-Edged Market Maker or other DMO counterparty may request the temporary creation of any non-rump gilt for repo purposes, but, in recognition of the fact that the DMO does not wish to substitute for normal market mechanisms, the DMO has charged, and will continue to charge a penal rate to create any such gilt. Originally the rate was determined by applying a scaling factor, of 10%, to the Official Bank Rate. This allowed the rate applicable to evolve as the Official Bank Rate changed over time but also meant that the penalty margin varied over time.

In order to neutralise the effect of the standing repo on Government's funding requirements and its cash management operations, the DMO will normally transact with the same counterparty a back-to-back, cash-for-cash reverse repo of other gilt collateral which will be priced at the Bank of England's prevailing Official Bank Rate.

Operations are overnight. Participants may roll the facility on a day to day basis for a short period. At the end of the operation, any stock created and repoed out by the DMO is returned and cancelled. Details of the amount and terms of any standing repo operation and of the end of operations are published. Gilts created under the facility are not eligible for inclusion in FTSE or iBoxx gilt indices.

To date, the standing repo facility has been activated 27 times (mostly in connection with availability of the prevailing cheapest-to-deliver gilt in the gilt futures contract) as detailed below:

Date	Gilt	Size (£mn nom)	Rate applied
29-Dec-2000	5¾% Treasury Stock 2009	1,146.50	0.600%
03-Jan-2001	5¾% Treasury Stock 2009	125.00	0.600%
05-Jan-2001	5¾% Treasury Stock 2009	466.00	0.600%
11-Jan-2001	5¾% Treasury Stock 2009	574.00	0.600%
05-Mar-2001	5¾% Treasury Stock 2009	344.00	0.575%
29-Jun-2001	8% Treasury Stock 2015	108.00	0.525%
11-Jul-2001	6½% Treasury Stock 2003	300.00	0.525%
28-Sep-2001	6¼% Treasury Stock 2010	525.00	0.475%
01-Oct-2001	6¼% Treasury Stock 2010	269.00	0.475%
02-Oct-2001	6¼% Treasury Stock 2010	151.20	0.475%
03-Oct-2001	6¼% Treasury Stock 2010	50.00	0.475%
05-Oct-2001	6¼% Treasury Stock 2010	120.00	0.450%
09-Oct-2001	6¼% Treasury Stock 2010	40.00	0.450%
12-Oct-2001	6¼% Treasury Stock 2010	73.00	0.450%
16-Oct-2001	6¼% Treasury Stock 2010	37.15	0.450%
17-Oct-2001	6¼% Treasury Stock 2010	35.00	0.450%
19-Feb-2002	9% Conversion Loan 2011	850.00	0.400%
20-Feb-2002	9% Conversion Loan 2011	200.00	0.400%
22-Feb-2002	9% Conversion Loan 2011	475.00	0.400%
06-Mar-2002	9% Conversion Loan 2011	320.00	0.400%
25-Sep-2002	5% Treasury Stock 2004	230.00	0.400%
16-Jan-2004	2½% I-L Treasury Stock 2009	82.20	0.375%
29-Jun-2004	8% Treasury Stock 2013	350.00	0.450%
30-Mar-2006	8% Treasury Stock 2015	767.00	0.450%
17-Jan-2007	8% Treasury Stock 2015	220.00	0.525%
01-Jun-2007	5% Treasury Stock 2012	112.00	0.550%
06-Jul-2007	5% Treasury Stock 2012	767.00	0.575%

The DMO’s standing repo facility is different from the DMO’s special repo facility. The launch of a discretionary special repo facility was also announced on 22 February 2000, under which the DMO reserves the right to create and repo out stock if the DMO considers there is sufficient evidence of severe market dislocation or disruption. Such circumstances will need to have been persistent and are not likely to be tied to any single event or difficulties encountered by a single market participant. Given the existence of the standing repo facility, the DMO envisages that the special repo facility would only need to be used very rarely. Indeed, the special repo facility has not, to date, been invoked.