

United Kingdom
**Debt
Management
Office**

EXCHEQUER CASH MANAGEMENT A DMO HANDBOOK



The United Kingdom
Debt Management Office
is an Executive Agency of
HM Treasury

Foreword by the Economic Secretary to the Treasury

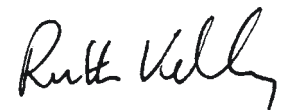
This handbook explains how the United Kingdom Debt Management Office (DMO) carries out its Exchequer cash management responsibilities. I hope that it will be useful to practitioners for reference, and also to a wider audience who will find it helpful to have material in a compact format covering both the DMO's approach to cash management and its operations in the recent past.

The transfer of Exchequer cash management responsibilities to the DMO on 3 April 2000 represented the conclusion of the Government's restructuring of the management of monetary and debt policy launched by the Chancellor of the Exchequer on 6 May 1997. The transfer came at a challenging time as the DMO was faced with smoothing the effect of the inflow of substantial cash proceeds from the 3G spectrum auction within weeks of it assuming cash management responsibility. But these challenges were successfully met.

The new structure has proved to be a success. The DMO has worked successfully with the market to implement its primary objective to offset the expected outturn cash flow into or out of the National Loans Fund, on every business day.

The DMO has introduced a number of reforms to the way Exchequer cash management is implemented. In particular, in September 2001, it introduced new arrangements for the conduct of Treasury bill tenders which came into effect ahead of the significant increase in Treasury bills in issue to over £10 billion in the third quarter of the 2001-02 financial year.

The publication of this handbook also fulfils the undertaking the DMO gave to the Treasury Sub-committee to produce such a document following a recommendation in the Treasury Sub-Committee's report into the Government's Cash and Debt Management in 2000. The Treasury Sub-Committee looked forward to the DMO establishing its credibility by ensuring its operations are as transparent as practicable. I believe it has done this. Already, with less than two years' experience in its cash management operations, the DMO has established itself as one of the key participants in the London money markets.



Ruth Kelly MP

February 2002

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1. INTRODUCTION

- 1.1. This handbook outlines the prevailing structure of Exchequer cash management in the UK, and the DMO's place in that structure. It describes the DMO's cash management responsibilities, how it carries them out and includes all the relevant published material on the DMO's operations in the money markets. It is designed to assist wider understanding of the DMO's approach to cash management, as well as to bring together in one place for market practitioners the key relevant documentation, data and current operating procedures.

The transfer of Exchequer cash management responsibilities to the DMO

- 1.2. The assumption of full responsibility for Exchequer cash management by the DMO on 3 April 2000 completed the restructuring of Government debt and cash management arrangements foreshadowed in the Chancellor's statement of 6 May 1997. The Chancellor had announced then that the responsibility for the setting of official interest rates was to be transferred from the Treasury to the Bank of England.
- 1.3. As part of the new monetary policy arrangements the Chancellor also announced that the Bank's role as the Government's agent for debt and cash management was to be transferred to HM Treasury. The new demarcation of responsibilities was intended to clarify the respective roles of the Bank and the Treasury, and to avoid any perception of conflicts of interest in market operations. It also enabled the eventual better integration of the government's short- and long-term borrowing needs. The DMO took over responsibility for debt management on 1 April 1998.

Undertaking to the Treasury Sub-Committee

- 1.4. The publication of the handbook fulfils the undertaking given by HM Treasury in its response (of 26 July 2000) to the Treasury Sub-Committee report "The Government's Cash and Debt Management" (published on 25 May 2000) to compile into one document the information it has published on the conduct of its cash management operations.

2. EXCHEQUER CASH MANAGEMENT BY THE DMO

The DMO's cash management objective

- 2.1. The DMO's main strategic objective in carrying out its cash management role is to "offset, through its market operations, the expected outturn cash flow into or out of the National Loans Fund (NLF), on every business day; and in a cost effective manner with due regard for credit risk management¹".

The structure of Government cash management

- 2.2. The DMO's operations are part of a wider Government structure for managing Exchequer cash flows. Government cash flows, whether expenditure, revenue, interest payments or borrowing are based around two central funds: the Consolidated Fund and the National Loans Fund (NLF). Government revenue from taxation and other sources is collected daily into the Consolidated Fund. Payments out of the Consolidated Fund to finance government spending are authorised by Parliament and almost all this spending is channelled through accounts held by Government Departments at the Office of HM Paymaster General, which in turn banks at the Bank of England. The NLF formally borrows money for the Government and for example funds, via the Public Works Loans Board (PWLB), lending to local authorities. UK government bonds – gilts – are liabilities of the NLF.
- 2.3. An arrangement of accounts, known as the Exchequer Pyramid, ensures that any cash balances which remain in government accounts at the Bank of England at the end of every business day are channelled into the main central government accounts, thereby minimising the government's cash borrowing needs. If the Consolidated Fund has a surplus, this is automatically transferred to the NLF to reduce its need to borrow. Equally, a deficit in the Consolidated Fund is automatically financed by a transfer from the NLF.

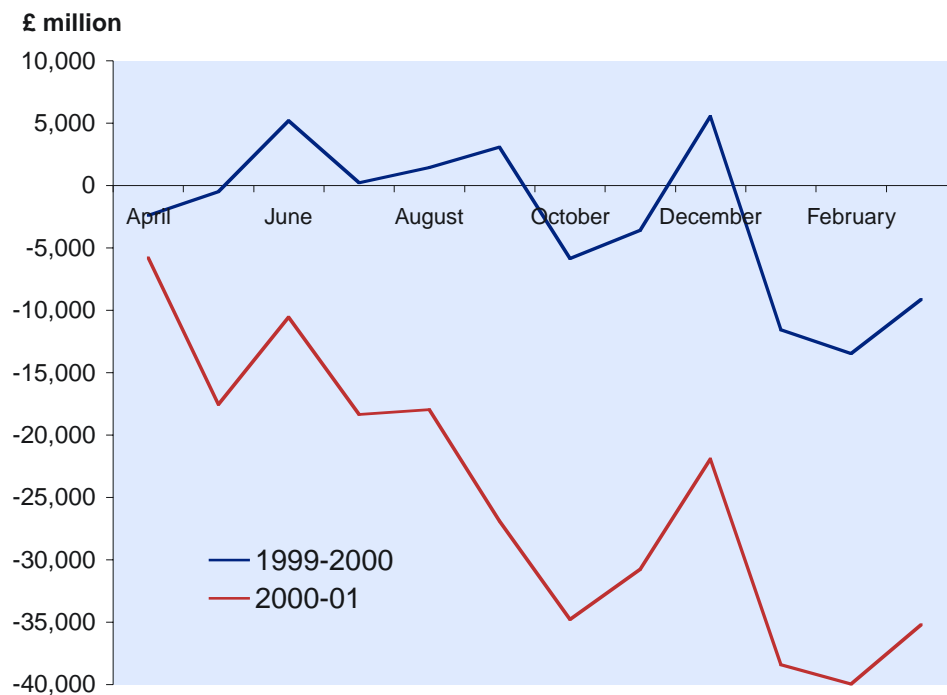
The DMO's cash management task

- 2.4. It is the DMO's task to undertake market borrowing or lending during each business day to balance the remaining position on the NLF after the operation of the Exchequer Pyramid described in paragraph 2.3 above. To do this the DMO needs to have reliable forecasts of each day's significant cash flows into and out of central government, and up-to-date monitoring of actual cash flows as they occur. Responsibility for forecasting and monitoring central government cash flows lies with HM Treasury.

¹ DMO strategic objective 2, Annex A of the DMO Business Plan 2001-02, available on www.dmo.gov.uk

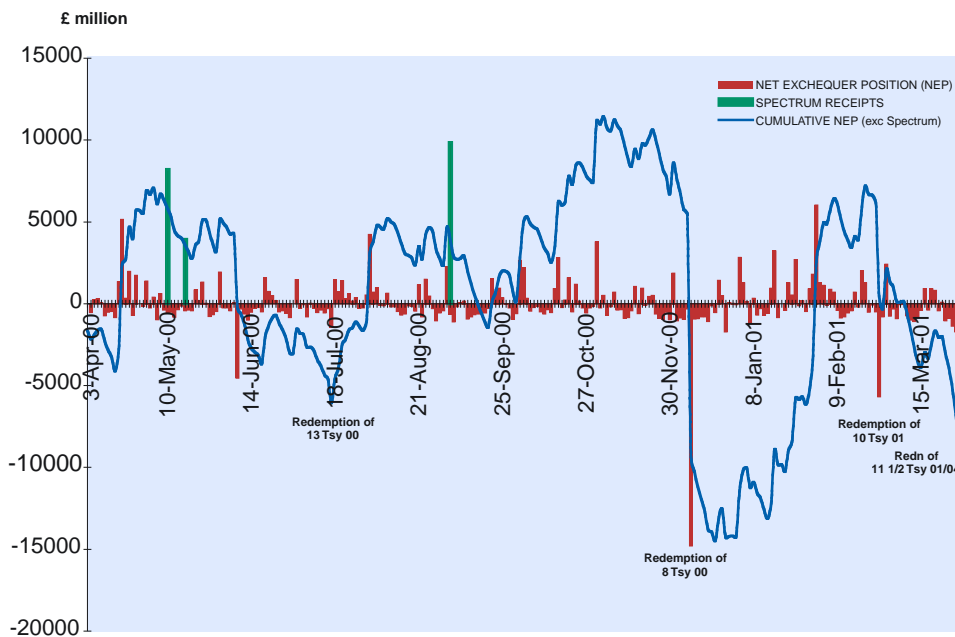
2.5. Over the course of a year the Exchequer's cash flow usually has a fairly regular monthly pattern associated with the pattern of tax receipts or expenditure cycles but major flows are also associated with gilt redemptions. In 2000-01 the annual picture was dramatically affected by the very large cash proceeds from the sale of third generation (3G) radio spectrum licences (see paragraphs 3.17-3.21, pages 13-14). The impact of these receipts on the cumulative central government net cash requirement (CGNCR) profile for 2000-01 can be seen in the chart below (which includes the profiles for the - more typical - previous financial year for comparison).

Cumulative CGNCRs 1999-2000 and 2000-01



2.6. The chart opposite shows the scale of cash flows on a daily basis in 2000-01 including the impact of spectrum and gilt redemptions. The net exchequer position tracked here on a daily and cumulative basis is essentially the CGNCR less gilt redemptions.

Daily cash flows 2000-01



Cash flow smoothing

- 2.7. Within the longer-term pattern there is considerable uncertainty as to flows on any one day, associated largely with the unpredictability of the precise timing and size of some tax and expenditure flows. The DMO's approach has been to manage these flows primarily through bilateral dealing in a range of money market instruments and by the issuance of Treasury bills. In the case of the latter, the DMO's remit envisages a run-down of the stock of bills in months of positive cash flow (ie. surplus) and an increase in months of higher net expenditure (deficit).
- 2.8. Some rough smoothing of the Exchequer's prospective cash flow variation is possible through term lending and borrowing. But the daily variation in the forecast of Exchequer flows means that there is also a need to fine tune cash flows on a daily basis. Apart from the weekly issue of Treasury bills (see Paragraph 3.6 page 8), most of the DMO's dealing is done using secured money market instruments to borrow from, or lend to, wholesale money market participants.

The DMO's approach

- 2.9. The DMO seeks to manage cash flows without influencing the level of short-term interest rates. The DMO also takes account of the operational requirements of the Bank of England for implementing its monetary policy objectives, and its impact on the sterling money markets.

2.10. An important part of the DMO's approach is therefore to seek to ensure that its actions do not distort market or trading patterns. In its bilateral dealings with the market the DMO is a price-taker and its remit is to balance the Exchequer cash flows cost-effectively. This means that while the DMO takes account of market levels in seeking to find a cost-effective way of smoothing the Exchequer cash flows, it does not run the cash management operation with a profit target and would not seek to influence rates to its advantage. The DMO works with the market, responding to market developments and balancing cost and risk in a similar way to other users of the market.

Interaction with UK monetary policy

2.11. The DMO has no contact with the Monetary Policy Committee (including the non-voting Treasury representative) with regard to interest rate decisions or its thinking. The current framework for Exchequer cash management was developed by HM Treasury and the DMO in discussion with the Bank of England to ensure that DMO operations do not cut across the Bank's monetary policy operations. In particular, the DMO will not hold weekly bill tenders or ad hoc tenders at times when the Bank of England is conducting its money market operations (currently 9.45am and 2.30pm). Neither will the DMO enter into loan transactions of a maturity that could be perceived as competing with the Bank's structured daily repo operations. These are currently around a 14-day maturity. The DMO does not intend to conduct ad hoc tenders in the second slot (10.00am)² on gilt auction days or Monetary Policy Committee decision days.

2.12. The DMO may also issue Treasury bills to assist the Bank of England in its management of the sterling money markets. If so requested by the Bank, the DMO may add an additional amount of bills to a tender. If the DMO were to do this it would identify, in its usual announcements, any amounts being issued for the Bank.

Relations with other external bodies

2.13. The DMO does not receive from the Treasury, the Office for National Statistics or other parts of government advance notice of policy statements or data releases that will affect the market's short-term interest rate expectations. The only exceptions are data and forecasts relating to the government's financing needs, or any policy announcement that could involve significant short-term cash flow implications.

End of day and contingency arrangements

2.14. On occasion, sizeable unanticipated cash inflows and outflows may occur too late in the day for their impact to be smoothed by bilateral dealing in the money markets. To take account of this, arrangements have been put in place with the Bank of England and settlement banks to cope with late changes to the forecast without disadvantage to the market.

² For details of ad hoc tenders see paragraphs 4-6 of the cash management operational notice at Annex A page 17.

- 2.15. In circumstances where there is an Exchequer cash surplus at 4.05pm, the surplus is taken into the Bank of England's Settlement Bank late repo facility (without the borrowing banks having to pay a penal rate of interest on the amount). An Exchequer cash deficit can be offset by bilateral borrowing from a number of settlement banks through a Special End of Day Transfer Arrangement (SEDTA).
- 2.16. In the rare circumstances where unanticipated changes to the forecast are not fully accommodated in the usual end of day arrangements, and to provide for changes arising from the overnight sweeping of accounts flowing into the NLF, the DMO holds a balance of £200 million at the Bank of England, as a further source of operational flexibility. HM Treasury also has in hand a programme to improve both the forecasting and monitoring of the daily cash flows.
- 2.17. The current structure has replaced the previous arrangements through which late changes were reflected in the size of the Government's Ways and Means Account at the Bank of England³. Since the assumption of exchequer cash management responsibility by the DMO the size of the Ways and Means account has been held at £13.4 billion.
- 2.18. The DMO has in place plans to ensure business continuity in the event that its office is not available for use. In the event that the DMO has to invoke these plans it will post a notice on its web site (www.dmo.gov.uk) notifying its market counterparties of the event and of further information relevant to the continued operation of the DMO's business.

³ The Ways and Means Account is the Government's overdraft with the Bank of England and is held by the Bank as an asset to back the note issue.

3. A review of the DMO's Exchequer cash management role and operations (to end-2001)

- 3.1. The assumption of full responsibility for Exchequer cash management by the DMO on 3 April 2000 (two years after the transfer of debt management responsibilities) represented a significant development for the sterling money markets in London.
- 3.2. The DMO consulted the market closely during the development of the new framework, a detailed description of which was published on 4 December 1998. The first version of the DMO's Operational Notice was published on 29 July 1999. An updated version of the Operational Notice was published on 6 January 2000 and the current version on 21 September 2001 (this is reproduced at Annex A).
- 3.3. Responsibility for cash management was transferred two years after debt management to cater for the development and introduction of new support systems and risk management arrangements. Latterly the transfer was delayed until the end of Q1 2000 to take account of the market's preference to avoid the transfer being too close to the 'lock down' period around the Millennium.

The transitional arrangements

- 3.4. To ensure a smooth transition to the new arrangements the features of the new regime were phased in between 15 November 1999 and the transfer of full responsibility from the Bank of England on 3 April 2000. (see Annex F).

The DMO cash management remit for 2000-01

- 3.5. With the assumption of full responsibility for Exchequer cash management, the DMO's remit from HM Treasury extended for the first time to cash management operations. The remit specified that the DMO carry out its cash management objectives primarily by a combination of the following activities:
 - regular weekly Treasury bill tenders;
 - bilateral dealing with its counterparties in the money market;
 - ad hoc tenders of Treasury bills (and repo or reverse repo transactions).

Treasury bills 2001-01

- 3.6. The DMO may hold weekly tenders for Treasury bills of the following maturities:
 - one-month (approximately 28 days);

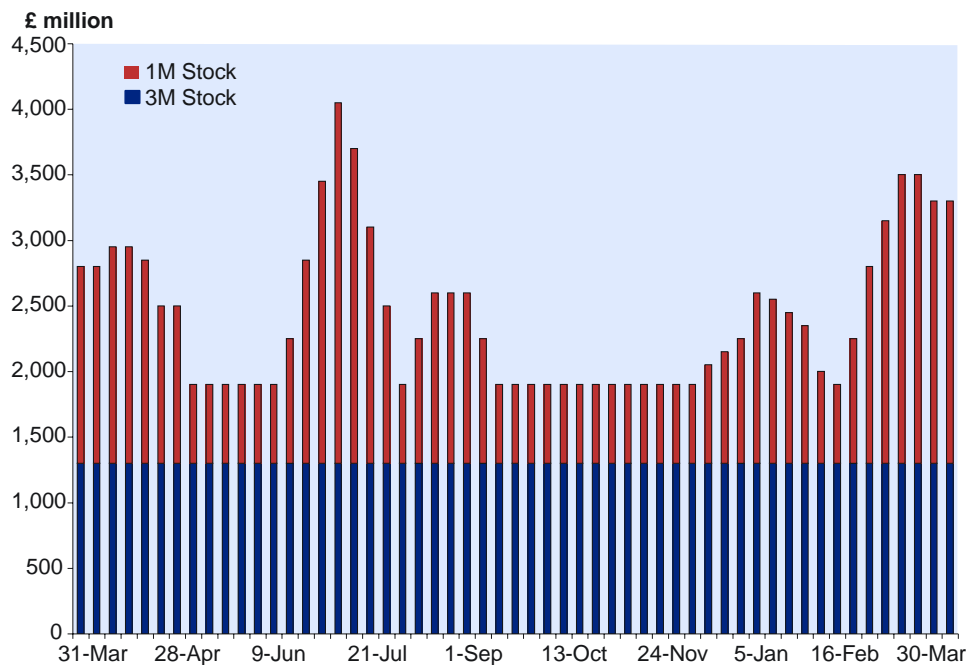
- three-months (approximately 91 days);
- six-months (approximately 182 days); and
- twelve-months (approximately 364 days).

3.7. Priority has been given to establishing stocks of one-and three-month Treasury bills before moving on to longer maturities. The DMO only issued one-and three-month bills at regular weekly tenders from April 2000 to December 2001.

3.8. The DMO began the 2000-01 financial year with a Treasury bill stock of £2.8 billion and the forecast level for the end of the financial year was £10 billion. During the year however, the forecast end-year stock was reduced in response to better than expected government finances, in particular the inflows from the spectrum auction (see below). The forecast stock was reduced to a target level of £8.7 billion after the 20 April 2000 publication of the CGNCR outturn for 1999-2000. It was then reduced to £8.0 billion in the 12 June 2000 re-statement of the financing arithmetic, and was reduced again to £3.5 billion in the Pre-Budget Report on 9 November 2000. The stock ended the year at £3.3 billion; comprising £2.0 billion one-month bills and £1.3 billion three-month bills.

3.9. The stock of Treasury bills over 2000-01 is shown in the chart below.

Treasury bill stocks 2000-01



- 3.10. In 2000-01 the DMO used changes in the stock of one-month bills as a means of intra-year cash flow smoothing. The stock of one-month Treasury bills varied between a minimum level of £600 million and £2,750 million (in mid July). The size of one-month tenders ranged from a minimum of £150 million per week to £750 million. Three-month Treasury bill issuance remained unchanged at £100 million per week throughout the year and the stock steady at £1.3 billion.
- 3.11. The results of the weekly Treasury bill tenders in 2000-01 are shown in Annex A, as are charts comparing the yields achieved at the tenders in 2000-01 with prevailing market funding rates (the BBA repo GC fixing rate, and LIBOR) on the settlement date of the tenders.

Bilateral operations with the market

- 3.12. The DMO has traded on a daily basis with its counterparties in a range of instruments. The original cash remit specified that these could include:
- purchases from the market for future resale (reverse repo);
 - sales to the market for future repurchase (repo);
 - outright sales and purchases of selected Treasury bills and eligible bills;
 - outright purchases of gilts which are within six months to maturity; and
 - unsecured cash borrowing and lending with its counterparties.
- 3.13. Other than gilts, the original remit specified that the DMO may use selected euro-denominated government securities, selected eligible bank bills, selected supranational sterling and euro-denominated securities and Treasury bills as collateral in repo and reverse repo transactions. On 4 January 2001 the DMO announced that any gilts purchased in the secondary market and not required for debt management operations could be used in its cash management operations as collateral in delivery-by-value (DBV) transactions only.
- 3.14. During the course of the year the range of instruments in which the DMO could deal bilaterally was expanded. On 12 September 2000 the DMO announced that it was adding selected Certificates of Deposit (CDs) to the range of instruments. On 9 November 2000, the day after the Pre-Budget Report announcement that the DMO would manage the Exchequer's expected end-year positive net cash position (to be run down over the next three financial years) as an extension of its cash management operations, the DMO further expanded the list of instruments to include:
- selected commercial paper (CP); and
 - selected bank bills and other short-term debt issued by high quality issuers, including supranationals and foreign governments.

- 3.15. The DMO also announced on 9 November 2000 that it may use short-term foreign currency swaps, Forward Rate Agreements (FRAs), and interest rate futures to manage foreign currency and interest rate exposures. Any foreign currency exposures would be fully hedged back into sterling.
- 3.16. To date the DMO has principally used the secured markets to effect both long- and short-term Exchequer cash operations. The approach taken has involved purchases from the market when the Exchequer is in surplus for future sale at a time when deficits are expected, and vice versa. The length of particular repo or reverse repo operations has reflected the projected profile of Exchequer cash flows. Some operations can be targeted some months in advance (ahead of days when significant cash inflows or outflows (eg gilt redemptions) are expected) but others are managed over a much shorter period.

The cash management impact of the spectrum auction proceeds

- 3.17. The DMO faced a major early cash management challenge in handling the cash receipts from three of the successful bidders for the 3G radio spectrum licences. £8.2 billion was received from the first bidders on 9 May 2000 and £3.9 billion on 16 May 2000. The first of these was amongst the largest ever cash payments to government on a single day.
- 3.18. The DMO (in consultation with the Bank of England, HM Treasury, the Radiocommunications Agency and some major banks) successfully put in place arrangements designed to:
- minimise disruption in the payments clearing system arising from the flow;
 - minimise disruption to the London money-markets arising from the flow from the private to public sectors;
 - minimise any risk of default or delay in the payments;
 - and to do so in a cost-effective way.
- 3.19. To this end a number of accounts were opened into which the auction proceeds received from successful bidders could be paid. Amounts held in these buffer accounts were collateralised by the banks. Subsequently, monies paid into these accounts were transferred into the Exchequer according to a previously agreed schedule, thereby smoothing flows and any market price adjustment. Part of the 9 May 2000 payment (of £8.2 billion) was handled in this way.
- 3.20. In addition the DMO held a one-month reverse repo tender for £1 billion on the morning of 9 May (thereby lending a proportion of the spectrum proceeds against gilt collateral). The tender was covered 6.72 times at an average (and lowest) yield of 5.85%.

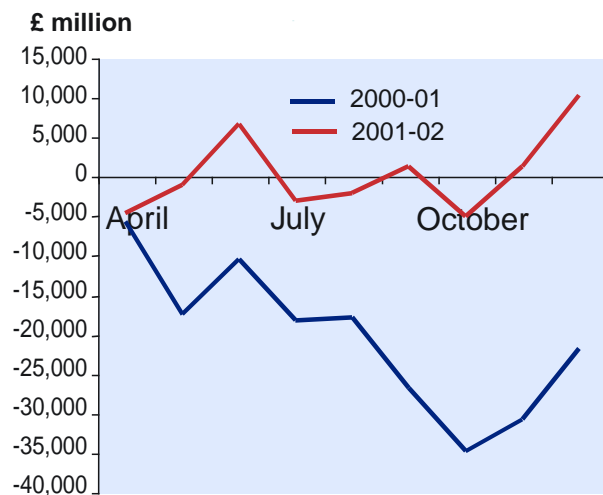
3.21. The proceeds from the second tranche of payers (£9.8 billion on 1 September 2000), for which the DMO had a much longer planning period, were managed through a combination of term bilateral repo/reverse repo transactions and an ad hoc reverse repo tender of £1.2 billion. (The tender was covered 3.35 times at an average yield of 5.64%.)

The DMO cash management remit for 2001-02

3.22. The DMO's second cash management remit was published on 7 March 2001. The remit was fundamentally similar to the previous year – with the key distinguishing feature being the plan to increase the stock of Treasury bills by £5.0 billion to £8.3 billion by end-March 2002.

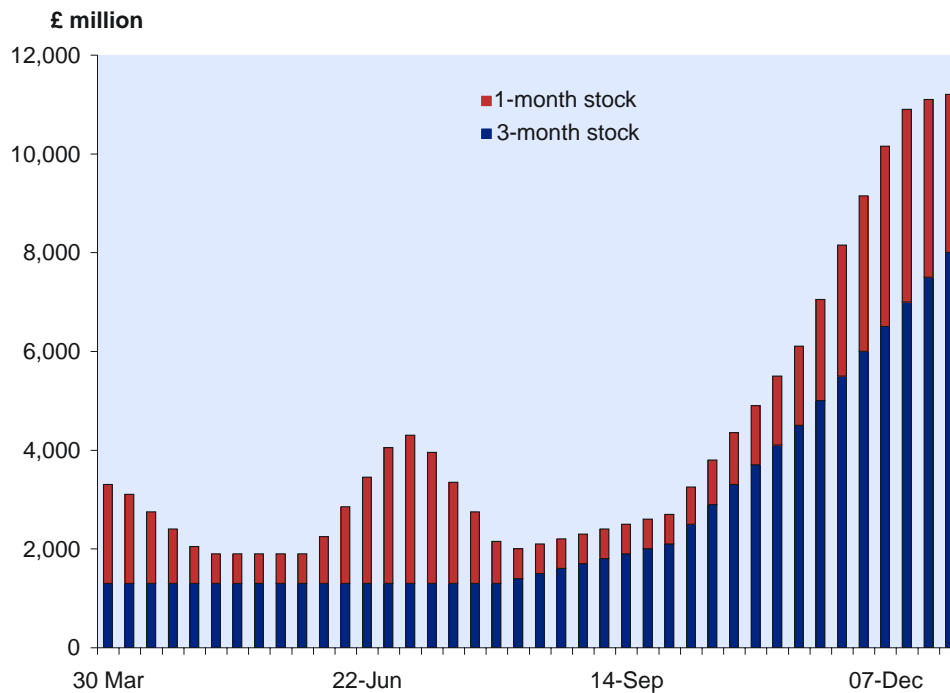
3.23. The pattern of Exchequer cash flows in the first half of the financial year reverted to their usual shape in 2001-02 after the distortion caused by the spectrum proceeds in the previous year.

Cumulative CGNCR (April-December 2001)



Treasury bill stocks (April-December 2001)

3.24. Treasury bill stocks fell slightly over the first half of the financial year (from £3.3 billion to £2.7 billion) but stocks began rising strongly from end-September onwards ahead of projected cash outflows in the final quarter of the calendar year and had reached £11.2 billion by the end of December 2001. The stock had earlier risen to £4.05 billion at the start of July to support smoothing operations to cover an Exchequer shortfall at the start of July and reduce a surplus by end-July. (See chart opposite)



New arrangements for Treasury bill issuance

3.25. On 21 September 2001, as part of the preparations for significantly increasing the level of Treasury bill stocks from October onwards, the DMO announced new arrangements for Treasury bill issuance. The main operational changes which came into effect from tenders on 5 October were:

- all bids to be received by 11.00 am on the day of the tender (previously 12.30 pm);
- all bids to be made (on a money market yield basis) to three decimal places (previously two decimal places);
- bids at tenders to be for a minimum of £500,000 nominal of bills (previously £1 million);
- the minimum issuance denomination of Treasury bills to be £25,000 (previously £5,000).

3.26. The DMO also announced that a group of nine banks had agreed to act as primary participants in connection with the issuance of Treasury bills. Primary participants will bid on behalf of other investors at tenders and also agreed to provide secondary dealing levels for Treasury bills for their customers.

Further information on DMO cash management operations

Details of the DMO wire service pages, on which it publishes information on its Exchequer cash management operations are given at the end of both Annexes A and B. Annex C also describes the Exchequer cash management information available on the DMO web site www.dmo.gov.uk.

ANNEX A

THE DMO CASH MANAGEMENT OPERATIONAL NOTICE (INCLUDING THE TREASURY BILL INFORMATION MEMORANDUM) ISSUED ON 21 SEPTEMBER 2001

This Operational Notice sets out the arrangements for the DMO's Exchequer cash management operations. It outlines the typical cash management operations the DMO undertakes although these may vary over time. This Operational Notice replaces the version issued on 6 January 2000 and includes the additions to the range of instruments in which the DMO transacts for cash management as announced on 12 September 2000 and 9 November 2000.

It also includes, at Appendix 1, the text of the Treasury bill Information Memorandum published on 21 September 2001 covering the conduct of weekly Treasury bill tenders.

This Operational Notice will be revised as needs arise. Any questions on this notice should be made to either Nick Fisher (020 7862 6518) or Jason Phillips (020 7862 6527).

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⁴ Page numbers of this publication.

Introduction

The DMO's main objective in carrying out its daily cash management operations is to offset, through its market operations, the expected net cash flow into or out of the National Loans Fund on every business day. It is to do this in a cost-effective way, balancing cost and risk in its strategies and without unduly influencing the level of short-term interest rates. The DMO also has to take account of the operational requirements of the Bank of England for implementing its monetary policy objectives.

2. The DMO conducts its cash management operations in accordance with the provisions contained in this Operational Notice, and it will act at all times in accordance with its published objectives and operates as required in order to achieve these objectives.

Weekly Treasury bill tenders

3. The conduct of weekly Treasury bill tenders is described in the Treasury bill Information Memorandum of 21 September 2001, which is reproduced in full in Appendix 1 of this Operational Notice.

Ad hoc tenders

4. In addition to issuing Treasury bills by way of weekly tenders, the DMO may issue Treasury bills with maturities of up to approximately 28 days on an ad hoc basis. Treasury bills issued as a result of ad hoc tenders will be identical in every respect with those issued via weekly tenders. There will, however, be some important distinctions in the bidding, settlement and administrative arrangements.
5. The DMO may also conduct ad hoc repo or reverse repo tenders as part of its cash management operations. The collateral given and taken in any such operations is likely to be gilts or Treasury bills. In addition, there may also be ad hoc tenders for outright buying of gilts (including strips) with a residual maturity of less than 6 months. Broadly, the same structure in terms of announcement, bidding and settlement would be used in such operations as for ad hoc Treasury bill tenders.

Timetable

6. 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. 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 will be for same day settlement in sterling, and tenders might be held on successive business days if necessary. The DMO envisages that the following timetables would be used for ad hoc tenders:

	Slot 1	Slot 2
Announcement & opening of tender	8.30am	10.00am
Close of tender	8.45am	10.15am
Aim to announce results shortly after	9.00am	10.30am
CHAPS payments in by	1.30pm	1.30pm
CREST/CMO movements by	close	close

The DMO does not intend to conduct ad hoc tenders in the second slot on gilt auction days or Monetary Policy Committee decision days.

Bidding

- Bidding at ad hoc tenders will be by telephone only. Arrangements for telephone bidding are set out in Appendix 2.
- Bidding at all ad hoc tenders will be on a competitive bid yield basis. Bids must be for a minimum of £5 million at each yield and in £1 million multiples thereafter. Counterparties may submit no more than five bids per maturity on offer in each tender. 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 scale bids. The DMO aims to publish the tender results on its wire services pages within 15 minutes of the close of the tender.

Treasury bill ad hoc tenders

- Ad hoc Treasury bill tenders are open to all DMO cash management counterparties and Treasury bill primary participants. Bids must be made by telephone only. Each bid submitted at ad hoc Treasury bill tenders must specify the maturity of bills being bid for, the nominal quantity being bid for together with the money market yield for each quantity expressed up to three decimal places.

Ad hoc repo or reverse repo tender

- Ad hoc repo or reverse repo tenders are open to DMO cash management counterparties. Bids must be made by telephone only. The bidding procedure for ad hoc tenders will be identical to ad hoc Treasury bill tenders, except that bids or offers submitted at the former must be expressed to two decimal places and that the amount bid for or offered would be expressed on a sterling cash basis. As with bilateral transactions, variation and initial margining "haircut" arrangements will be applied to ad hoc repo and reverse repo tenders where necessary.

Ad hoc tender result

11. The DMO aims to release the result of an ad hoc tender around 15 minutes after the close of the offer. At the cut-off point (the highest accepted yield for a Treasury bill or repo tender and the lowest for a near maturity gilt or reverse repo tender), a scaling ratio will be calculated in the same way as for weekly Treasury bill tenders⁵ and applied to all bids (offers) at the highest (lowest) accepted yield.
12. The announcement of the result for each tender contains details of the amount allocated / accepted, the average accepted yield, and the yield and the scaling factor at the cut off point (this would be the average weighted scaling factor for ad hoc Treasury bill tenders).

Settlement of ad hoc tenders

13. For those counterparties 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. In the case of ad hoc Treasury bill tenders, to aid the shortened settlement process, the DMO uses its discretion to select a range of suitable bill denominations for successful bidders. Settlement of allocations from ad hoc tenders are for same day value in sterling. CHAPS payments⁶ in settlement must therefore be with the Bank of England, for credit of the DMO at Sort Code 10-18-00, by 1.30pm on the day of the tender. Allocations arising from Treasury bill and Treasury bill repo tenders are credited to successful bidders' nominated accounts at the CMO or its equivalent on the day of the tender providing that settlement has been effected. Near maturity gilt and reverse repo ad hoc tenders are settled through CREST or its equivalent.

Splitting of Treasury bills

14. The same arrangements for splitting Treasury bills subsequent to the publication of the weekly Treasury bill tender result apply to ad hoc Treasury bill tenders.

Bilateral Dealing

15. The DMO trades in a range of selected instruments on a bilateral basis with its cash management counterparties and scores, against its internal credit usage and counterparty limits, its exposures to any issue⁷ or counterparty.

Range of instruments

16. The range and type of instruments in which the DMO transacts in for cash management purposes are set out overleaf. The DMO reserves the right to revise the range of instruments and publishes the most recent list on its web site www.dmo.gov.uk

⁵ Except that for repo and reverse repo tenders allocations will not have to be rounded to multiples of £25,000 nominal to reflect the lowest denomination of bill at issue.

⁶ Which must be made from a European Economic Area regulated credit institution unless in a particular case the DMO agrees a different method of settlement.

⁷ Including where relevant the accepting bank.

Repo and reverse repo

Instruments	Dealing basis
Gilts (delivery by value (DBV ⁸) and General Collateral (GC) including strips)	Tenders & bilateral
HMT bills	Tenders & bilateral
Non-Sterling HMT paper	Bilateral
Selected highest-rated Supranational £ and € paper	Bilateral
Selected highest-rated European Government € debt	Bilateral
Selected high quality short-term debt ⁹	Bilateral
Selected Bank bills	Bilateral

17. The DMO can transact in repo and reverse repo with counterparties for maturities of up to 1 year. The DMO refers to the amount of a repo/reverse transaction in sterling cash terms as opposed to nominal stock terms (i.e. £10 million at the start leg of a repo will signify £10 million of cash not nominal of stock).
18. 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 point of trade. For all reverse repo transactions other than DBV, the DMO requires counterparties to identify the collateral being pledged in a timely manner.
19. The DMO marks to market its exposures to its repo counterparties and will call margin, if required, on a daily basis. Where initial margin (“a haircut”) is to be calculated on a repo or a reverse repo transaction, the DMO follows the calculation methodology set out in the Gilt Repo Code of Best Practice produced by the Stock Lending & Repo Committee.
20. The DMO does not deliberately seek collateral that may be “special”¹⁰ or individual stocks with a view to their becoming “special”. However, the DMO may decide to deal in specific stocks along with GC or DBV as part of its cash management operations. Any stock acquired by the DMO in its debt management operations can be used as collateral in delivery-by-value (DBV) transactions only.

⁸ The DMO intends to use and will only accept stripped and unstripped British Government Stock for DBV transactions.

⁹ Debt instruments issued by high quality issuers, including supranationals and foreign governments.

¹⁰ Defined in the Gilt Repo Code of Best Practice produced by the Stock Lending & Repo Committee as “Securities which, for any reason, are sought after in the repo market, thereby enabling holders to earn incremental income (in excess of General Collateral) through lending them via a repo transaction.”

Outright purchases and sales

Instruments	Dealing basis
Gilt purchases (< 6 months to maturity)	Tenders & bilateral
Gilt strip purchases (< 6 months to maturity)	Tenders & bilateral
HMT bill purchases	Bilateral
Selected Certificates of Deposit (CDs) (< 12 months to maturity)	Bilateral
Selected Commercial Paper £, \$, € and ¥ (< 12 months to maturity)	Bilateral
Selected eligible bank bills (< 6 months to maturity)	Bilateral
Selected bank bills (< 6 months to maturity)	Bilateral
Selected high quality short-term debt ¹¹ (< 12 months to maturity)	Bilateral

21. All purchases are subject to the DMO's internal credit limits. In the case of eligible bank bills the DMO have regard to the accepting bank name in its internal credit limits. Before the deal is committed, therefore, the DMO would expect to confirm that the accepting bank name(s) did not breach internal limits. If the DMO sells eligible bills, it shall not be deemed to have endorsed the bills.

Other dealing

22. The DMO may deal bilaterally on an unsecured cash basis. Contracts will be entered into by telephone. The "general terms and conditions for telephone dealing" set out in Appendix 2 shall apply in the case of contracts entered into by telephone.
23. The DMO may use short-term currency swaps, Forward Rate Agreements (FRAs) and interest rate futures to manage foreign currency and interest rate exposures. All foreign currency exposures will be hedged back into sterling.

Settlement

24. Unless specified otherwise, all bilateral transactions with the DMO are settled on the trade date and in sterling. The DMO is prepared to transact in the instruments listed above provided settlement can take place in CREST (including CMO) or its equivalent, Clearstream or Euroclear, and according to the DMO's settlement requirements and timetable. For any enquiries regarding settlement please contact either David Cuthbert (020 7862 6542) or Neil Corkill (020 7862 6565) or the DMO's settlement fax (020 7862 6504).

¹¹ Debt instruments issued by high quality issuers, including supranationals and foreign governments.

Standard Settlement Instructions for cash management transactions

Bankers: Bank of England. Sort Code 10-18-00.
 a/c 01206 / 22573410
 CREST: 00XBJ – Governor and Company of the Bank of
 England – DMA account
 CMO: Bank of England 5319
 CHAPS: 10-18-00
 SWIFT: DMOAGB2L
 Euroclear: Bank of England B-M a/c 22224
 Clearstream: Bank of England B-M a/c 87142

DMO Announcement Pages

Information	Reuters/Bridge/ADP	Telerate	Topic	Bloomberg
Money market announcements	DMO/CASH 01	15700 to 15709	44660 to 44669	DMO9<GO>
Treasury bill tenders	DMO/CASH 11	15710 to 15711	44670 to 44671	DMO9<GO>
Ad hoc tenders	DMO/CASH 16	15715 to 15716	44675 to 44676	DMO9<GO>

Cash management counterparty selection

25. The DMO deals with a wide range of counterparties with whom it has an all round dealing relationship. The DMO values counterparties with whom it can transact on a fairly regular basis; for example, by their participating in weekly tenders for Treasury bills, ad hoc tenders and in bilateral dealings in a range of money market instruments.
26. Counterparties are regular participants in the markets in which they propose to deal with the DMO. Therefore they are expected to be regulated financial intermediaries. The DMO's list of counterparties is not published.

The key features of a Cash Management counterparty relationship with the DMO are:

- access to the DMO's ad hoc tenders;
 - the ability to deal with the DMO on a bilateral basis in a range of money market instruments;
 - consultations with the DMO on the state of the money markets and the direction of the DMO's policies.
27. Counterparties are expected to bid regularly at Treasury bill and any ad hoc tenders that may take place. The DMO's dealers seek to develop a meaningful direct dealing relationship with each counterparty.
28. Once Cash Management counterparty status has been agreed, 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 documentation;¹²
 - acceptance of the terms contained within this Operational Notice and the Treasury bill Information Memorandum;
 - confirmation of the counterparty's regulatory status and details of its legal entity;
 - agreement of margining arrangements;
 - provision of Standard Settlement Instructions and lists of authorised signatories and contacts;
 - set up of a direct, dedicated telephone link to the DMO's dealing desk (see Appendix 3 for the specification);
 - completion of DMO's due diligence checks.

Expressions of interest in becoming a counterparty should be made in the first instance to Nick Fisher (020 7862 6518) or Jason Phillips (020 7862 6527).

¹²The DMO's repo agreement (where the counterparty intends to enter into repo or reverse repo transactions with the DMO) and or ISDA documentation and also a letter confirming the counterparties' agreement to adhere to this and subsequent versions of the Operational Notice.

Appendix 1

UK TREASURY BILL INFORMATION MEMORANDUM

September 2001

- Introduction
- 1. Description of the instrument
 - Pricing
- 2. Treasury bill tenders
 - Participation
 - Bidding at Treasury bill tenders
 - Processing of bids
 - Maturity of bills issued
 - Announcements of future tenders
- 3. Settlement and depository arrangements
- 4. Withholding tax
- 5. Treasury bill primary participants

Annex A: Treasury bill primary participants

Annex B: Contacts/information

Introduction

The UK Debt Management Office (“DMO”) expects Treasury bills to play a growing role in its Exchequer cash management operations in the future and to represent an increasingly important component in the UK Government’s stock of marketable debt instruments, alongside gilts. HM Treasury’s remit to the DMO for 2001-02 includes plans for a £5.0 billion increase in the stock of Treasury bills over the financial year (to £8.3 billion).

This information memorandum sets out the main features of Treasury bills as a financial instrument, how they can be bought, settled and traded and through whom. The arrangements set out in this memorandum come into force with effect from the Treasury bill tender to be held on Friday 5 October 2001.

This memorandum is to be read alongside the DMO’s revised cash management Operational Notice dated 21 September 2001. This memorandum is repeated as Appendix 1 of the Operational Notice which is available on the DMO web site www.dmo.gov.uk (and is available from the DMO).

The Government’s Treasury bill programme is continuously kept under review. If interested parties have any comments or suggestions on the programme, or wish to express an interest in becoming a Treasury bill primary participant (see Annex A) or would like more information on Treasury bills generally, see Annex B for DMO contact/information details.

1. Description of the instrument

- 1.1. Treasury bills are sterling denominated unconditional obligations of the UK Government with recourse to the National Loans Fund and the Consolidated Fund. They are issued from, and are liabilities of, the Debt Management Account. Treasury bills are negotiable, bearer, zero-coupon instruments.
- 1.2. In credit risk terms Treasury bills have the same standing as gilt-edged securities (“gilts”)¹³. They qualify as zero risk-weighted instruments for the purposes of determining capital adequacy under the 1988 Basel Capital Accord.

¹³ Gilts and Treasury bills are both unconditional liabilities of the UK Government, which is AAA rated by Standard & Poor’s and Fitch IBCA, and Aaa by Moody’s.

- 1.3. Treasury bills can be issued with maturities of 1 month (approximately 28 days), 3 months (approximately 91 days), 6 months (approximately 182 days) and 12 months (up to 364 days). However the DMO expects to give priority to establishing the shorter maturities more fully before introducing the longer maturity instruments.
- 1.4. Treasury bills issued on and after the tender on Friday 5 October 2001 will have a minimum denomination at issue of £25,000 nominal.
- 1.5. Treasury bills can be held in the following depository systems – CMO and Euroclear (see section 3 page 27).
- 1.6. Treasury bills can be used as collateral in the Bank of England's open market operations and in RTGS¹⁴ and can be used by the DMO as part of its Exchequer cash management operations.

Pricing

- 1.7. Treasury bills are issued at tenders (see opposite) 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:

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

- where: P = Settlement proceeds in pounds
 N = Nominal value in pounds
 y = Yield, quoted as a percentage and up 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).

¹⁴Real-Time Gross Settlement payment system.

2. Treasury bill tenders

- 2.1. Treasury bills are issued at weekly tenders, held by the DMO on the last business day of each week (ie usually on Fridays). The DMO announces the size of the following week's tender and the maturity of bills on offer at the preceding week's tender. These announcements are made on the DMO's wire service pages¹⁵.
- 2.2. The DMO may also issue Treasury bills to assist the Bank of England in its management of the sterling money markets. If requested by the Bank, the DMO would consider adding an additional amount of bills to a tender and in which case it would identify, in its usual announcements, any amount being issued for the Bank.

Participation

- 2.3. Direct bidding by telephone in Treasury bill tenders is open to the following eligible participants:
 - DMO cash management counterparties – who may make bids on existing direct dealing telephone lines;
 - Treasury bill primary participants – (see Annex A);
 - a limited range of wholesale market participants who have established a dealing relationship¹⁶ with the DMO.
- 2.4. Primary participants have indicated that, subject to their own due diligence controls, they are willing to bid at tenders on behalf of other parties.
- 2.5. Eligible participants may bid in tenders 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 in a tender.

¹⁵ Reuters/Bridge/ADP, DMO/CASH11, Telerate, 15710 to 15711, Topic 44670 to 44671, Bloomberg, DMO9<GO>.

¹⁶ In accordance with the arrangements set out under "Cash management counterparty selection" in the Operational Notice. When arranging for a telephone bidding facility, allowance should be made for the timescale involved in setting up such arrangements.

Bidding at Treasury bill tenders

2.6 The key features of the Treasury bill tender process are:

- tenders are held on a competitive bid yield basis;
- all bids must specify the maturity of bills being bid for, and must be made on a percentage money market yield basis¹⁷. Bids may be made up to three decimal places, and must include the nominal amount bid for at each yield;
- 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 each bidder;
- all bids must be received by 11.00 am (London time) on the day of the tender.

Processing of bids

2.7. On receipt of bids from eligible participants the DMO will:

- rank bids for each maturity on offer by yield. 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. Bids at the highest accepted yield may only receive a proportion of the nominal amount of bills bid for;
- reserve the right not to allot the total amount of bills on offer, to cancel any tender and not 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. These amounts will be rounded down to the nearest minimum denomination of £25,000. Any residual amount will then be split into tranches of the minimum denomination and allocated to bidders firstly in order of size of bid (with larger bids taking precedence) and then time of bid (with earlier¹⁸ bids taking precedence);
- publish the results of the tender on its wire services pages and on its web site www.dmo.gov.uk as soon after 11.00 am (London time) as possible¹⁹. The results set out the amounts applied for and allotted respectively at each maturity, the lowest, average and highest accepted yields together with a weighted average percentage allotted at the highest accepted yield (ie, weighted by the amount bid)²⁰; and;
- announce, at the same time, 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.

¹⁷ See the section on pricing for the settlement convention the DMO uses for these purposes.

¹⁸ Based on the time a bid is input to the DMO's tender processing system.

¹⁹ The results of the 52 tenders held in 2000-01 were made available on average within 13 minutes of the close of the tender.

²⁰ For example, 2 bids are successful at the highest accepted yield and there is £100m left to allot. If bid X was for £200m and bid Y was for £1m, X would receive about 49.8% (£99.525m) of its amount bid and Y would receive 47.5% (£0.475m); the weighted average percentage at the highest accepted yield would be $((200 \times 49.7625) + (1 \times 47.5)) / 201 =$ about 50%.

Maturity of bills issued

- 2.8. Bills issued at tenders currently mature on the first business day of the week, four weeks, thirteen weeks, twenty six weeks or fifty two weeks respectively following the issue date, which will be the first business day of the week following the tender.
- 2.9. 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 first business day of the relevant week.

Announcements of future tenders

- 2.10. Following the final 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.

3. Settlement and depository arrangements

- 3.1. The main features of the settlement and depository arrangements relating to Treasury bills are:

Settlement

- successful bidders will be contacted by the DMO following the publication of the results of the tender to which their allotments relate. The DMO will confirm the nominal amount of Treasury bills allotted, the purchase consideration bearing in mind the accepted bids and the purchasers' settlement instructions. The DMO will also ask the purchaser for their preferred bill denominations. As noted before the minimum denomination of Treasury bills at issue is £25,000 nominal;
- an exchange of confirmations will follow. Treasury bill allocations resulting from tenders will be settled on the first business day of the following week; this will also be the issue date of the Treasury bills purchased;
- a CHAPS payment for the full consideration must be received by the Bank of England, from a European Economic Area regulated credit institution, **for credit of the DMO's account at Sort Code 10-18-00, by 1.30pm (London time) on the settlement date**²¹. The purchased Treasury bills will only be released to, or made available for withdrawal from, the purchaser's account at the CMO²² (or its equivalent) once this payment has been received;

²¹ Unless in a particular case the DMO agrees a different method of settlement.

²² Central Moneymarkets Office.

- Treasury bills may be split into smaller denominations or reconstituted into larger denominations on request to the Bank of England, Custodial Services Group, Treasury bills section (020 7601 3302). Currently, the minimum denomination for such splits is £5,000; to bring it into line with the minimum denomination at issue, the DMO intends to increase the minimum split denomination to £25,000 as from 2 January 2002;
- transactions in Treasury bills can also be settled across Euroclear.

Depository

- 3.2. Treasury bills can be held in the CMO, which is operated by the Bank of England on behalf of CRESTCo. The CMO is the central depository for Treasury bills.
- 3.3 It is also possible to hold Treasury bills through Euroclear through the relevant specialised depository.

4. Withholding tax

- 4.1 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.

5. Treasury bill primary participants

- 5.1 Annex A contains a list of banks that have agreed, subject to their own due diligence, to bid at Treasury bill tenders on behalf of investors; they will also provide secondary dealing levels for Treasury bills.
- 5.2 All participants at Treasury bill tenders must be registered financial institutions, regulated by the FSA and subject to its rules and guidance in their activities.

Appendix 1 (Annex A):

Treasury bill primary participants (at 21 September 2001)²³

The primary participants listed below are banks that have agreed, subject to their own due diligence, to bid at Treasury bill tenders on behalf of investors; they will also provide secondary dealing levels for Treasury bills.

Barclays Bank plc	020 7773 9650
Cater Allen International Ltd	020 7383 9520
Credit Lyonnais	020 7782 0106
Deutsche Bank	020 7547 0009
Halifax Group Treasury & Wholesale Banking	020 7374 0484
JP Morgan Securities Ltd	020 7779 3180
The Royal Bank of Scotland plc	020 7256 5471
Salomon Brothers International Ltd	020 7986 9535
UBS Warburg	020 7328 0203

²³ The DMO will update this list as necessary – a current version will appear on its web site www.dmo.gov.uk.

Appendix 1 (Annex B): Contacts/information

Cash dealing unit – participation/dealing issues

020 7862 6518

020 7862 6527

Settlements team – settlement, custody and depository issues

020 7862 6542

Risk management unit – legal/compliance issues

020 7862 6523

Press/media issues

020 7862 6532

Further information on the Treasury bill programme can be accessed on the DMO web site www.dmo.gov.uk (in the money markets pages) and in the DMO's Quarterly Reviews published each January, April, July and October (and which are also available on the DMO web site in the publications pages).

The DMO also publishes information on its Treasury bill and money markets activities on the following wire services:

Information	Reuters/Bridge/ADP	Telerate	Topic	Bloomberg
Money market announcements	DMO/CASH 01	15700 to 15709	44660 to 44669	DMO9<GO>
Treasury bill tenders	DMO/CASH 11	15710 to 15711	44670 to 44671	DMO9<GO>
Ad hoc tenders	DMO/CASH 16	15715 to 15716	44675 to 44676	DMO9<GO>

Appendix 2

General terms and conditions for telephone dealing

- Telephone deals with the DMO are irrevocable.
- Telephone calls to the DMO's dealing desk and settlements desk will be tape-recorded.
- The DMO's record of a deal will prevail in the event of any dispute or misunderstanding.
- The counterparty will be wholly responsible for ensuring that it has complied fully with all applicable anti-money laundering legislation and regulations in all transactions and its business relationship with the DMO.

Ad hoc tender terms and conditions for telephone bidding

- The terms and conditions of issue are set out in the DMO's cash management / Treasury bill tender announcement.
- Telephone applications must be for or of a minimum of £5 million nominal and must be made in multiples of £1 million nominal thereafter.
- A maximum of five bids (or offers) per maturity on offer (or advised) at each tender may be submitted by any one counterparty.
- Bids (or offers) must be received by the latest time specified as such in the DMO's cash management announcement.
- Each bid (or offer) must specify: the name of the bidder; the maturity being bid for (or offered), the yield of each bid (or offer); and the quantity of each bid (or offer). Separate bids (or offers) must be made for each maturity.

Appendix 3

Dealing room voice systems

The DMO's dealing room voice system is an IPC DK2000 digital voice switch. This system as currently configured supports Fig.1 (Ring In / Loop Out) and Fig. 2 (Ring In / Ring Out) analogue line interfaces. Other standard analogue line interfaces can be accommodated by arrangement if required.

Counterparties will need to order a private voice circuit 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 presentation from COLT Telecommunications and BT.

The technical contact at the DMO for any enquiries relating to voice communications is Graham Fletcher (Tel. 020 7862 6574, e-mail graham.fletcher@dmo.gsi.gov.uk).

ANNEX B: UK Sterling Treasury bill update – of 21 September 2001

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. 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

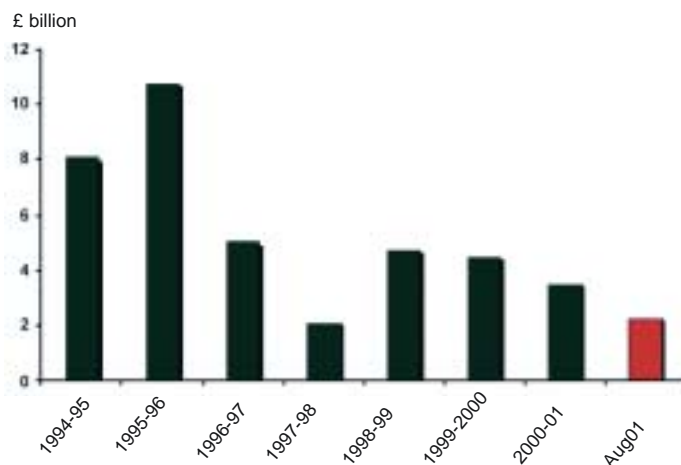
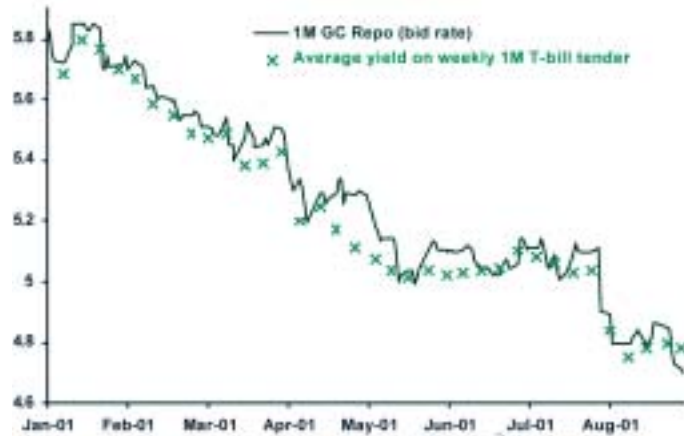


Chart 1 shows how the stock of UK Treasury bills has evolved over recent years. At the end of August 2001 the stock of 1-month Treasury bills was £600mn, with £1600mn of 3-month bills.

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 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.

2. GC rates and the average yield on month structured Treasury bill tenders during 2001

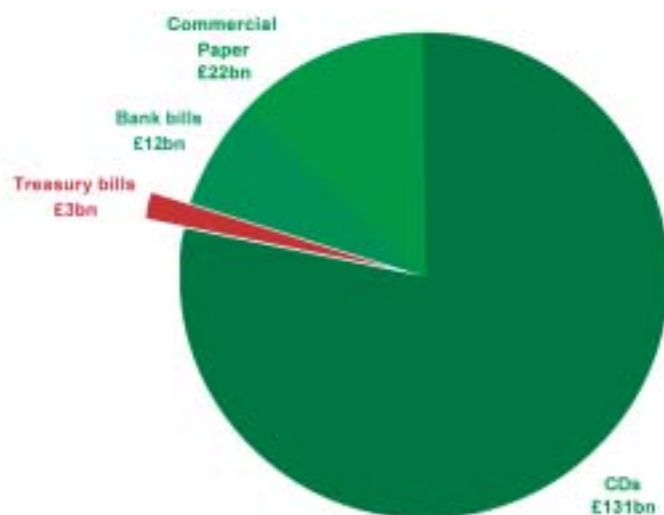


Around 30% of the outstanding value of the sterling money market consists of negotiable instruments, the remainder being approximately equally composed of secured (gilt repo) lending and unsecured interbank lending.

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

Value of negotiable instrument sterling money markets (June 2001)

Source: Bank of England



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 and on CRESTCo's web site www.crestco.co.uk.

Updated data, press releases and other information are available from the wire services listed below and on the DMO web site at 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 157 16	44675 to 44676	DMO9<GO>

Contacts

Function	Telephone number
Participation and dealing issues	020 7862 6518 020 7862 6527
Settlement Issues	020 7862 6542
Legal/compliance issues	020 7862 6523
Press/media issues	020 7862 6532

ANNEX C:

Information on Exchequer cash management available on the DMO web site: www.dmo.gov.uk

The DMO web site www.dmo.gov.uk includes a specific section on the DMO's money market operations.

The following information is available within this area of the site:

- all Treasury bill tender results since the start of 2000 (updated after weekly tenders);
- all relevant press releases;
- data on the current and historic level of treasury bill stocks (updated monthly);
- data comparing the performance of treasury bill tenders (in terms of the average yield achieved) with competing market funding rated (GC repo);
- the list of current Treasury bill primary participants.

In addition, the publications area of the web site includes a section on cash management publications where all relevant operational notices and policy publications can be found.

DMO Use of this web site and any material on it constitutes acceptance of the DMO disclaimer. [DMO Home](#) [Feedback](#)

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MONEY MARKETS

All issues from 1999

Treasury Bill Tender Results	All historical list of the results of weekly Treasury bill tenders from 1st January 2000 to date. The list is updated weekly after each weekly tender is announced. It also gives the bid, Treasury bill tender's and current stock.
Press Releases	All historical list of DMO Press Releases related to the DMO's activities in the money markets. Linked to each relevant category.
Data	Current and historical data
Treasury Bill Primary Participants	List of Treasury bill primary participants

The Cash Management Task
The Exchequer's cash flow has a fairly regular seasonal and monthly pattern, but it is also subject to considerable uncertainty, associated largely with uncertainty in the timing of some tax and expenditure flows. The DMO's approach is to rough out the seasonal pattern of flows through the issue of Treasury bills bilaterally dealing in a range of money market instruments and occasional ad hoc tenders of Treasury bills and repo.

The variation in the forecast of Exchequer flows however means that there is usually a need to fine tune the flows and this is done through bilateral dealing on a daily basis, as well as occasional ad hoc tenders. Apart from the weekly issue of Treasury bills, most of the DMO's dealing is done on a bilateral basis, and mainly in the secured markets.

A few ad hoc Treasury bill and reverse repo tenders have been held. To take account of short-term cash inflows and outflows, arrangements have been put in place with the Bank of England and settlement banks designed to cope with late changes in the forecast for the day without disadvantage to the market.

Money Market Activities
The DMO took over full responsibility for Exchequer cash management, from the Bank of England on the 3 April 2000. The DMO's main objective in carrying out its cash management operations is to offset, through its market operations, the expected cash flows into or out of the National Loans Fund on every business day.

It is to do this in a cost-effective way, balancing cost and risk in its strategies and without influencing the level of short-term interest rates. The DMO also has to take account of the operational requirements of the Bank of England by implementing its monetary policy objectives.

The DMO is to carry out its cash management objectives primarily by a combination of the following main activities:

- Structural weekly Treasury bill tenders
- Bilateral operations with DMO counterparties
- Ad hoc tenders of Treasury bills (and repo or reverse repo transactions)

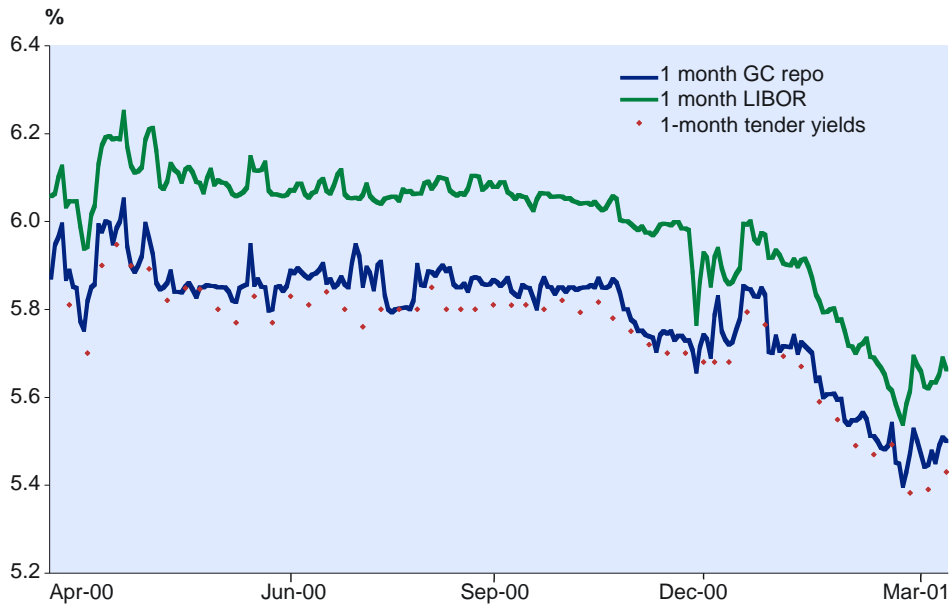
ANNEX D:

Treasury bill tender results 2000-01

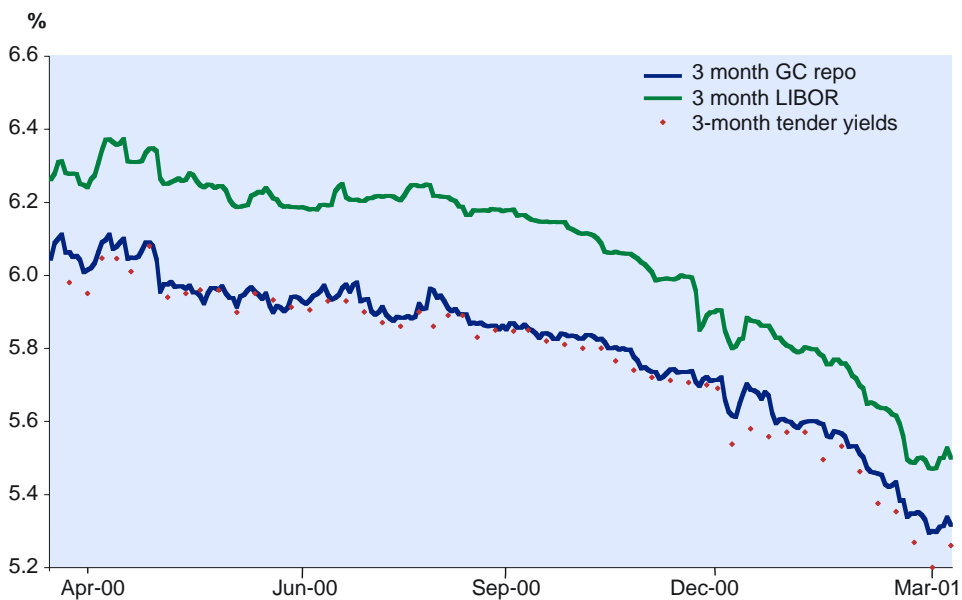
	Date	Maturity date	Size £mn	Cover	Avg Yield	Avg Price	Yield tall
1-month							
	07-Apr	08-May	150	6.10	5.8100	99.5563	0
	14-Apr	15-May	150	6.97	5.7000	99.5646	0
	20-Apr	22-May	150	4.70	5.9000	99.5655	0
	28-Apr	30-May	150	4.30	5.9470	99.5459	0
	05-May	05-Jun	150	5.53	5.9000	99.5494	0
	12-May	12-Jun	150	5.54	5.8925	99.5500	1
	19-May	19-Jun	150	3.37	5.8200	99.5555	1
	26-May	26-Jun	150	3.47	5.8487	99.5692	1
	02-Jun	03-Jul	150	4.53	5.8466	99.5535	0
	09-Jun	10-Jul	500	6.09	5.8000	99.5570	0
	16-Jun	17-Jul	750	5.39	5.7700	99.5593	0
	23-Jun	24-Jul	750	5.05	5.8300	99.5548	0
	30-Jun	31-Jul	750	3.33	5.7700	99.5593	0
	07-Jul	07-Aug	150	5.53	6.8300	99.5548	0
	14-Jul	14-Aug	150	6.30	5.8100	99.5563	0
	21-Jul	21-Aug	150	5.73	5.8400	99.5540	0
	28-Jul	29-Aug	150	6.47	5.8000	99.5413	0
	04-Aug	04-Sep	500	6.25	5.7600	99.5601	0
	11-Aug	11-Sep	500	4.70	5.8000	99.5570	0
	18-Aug	18-Sep	150	6.00	5.8000	99.5570	0
	25-Aug	25-Sep	150	5.17	5.8000	99.5728	0
	01-Sep	02-Oct	150	2.57	5.8500	99.5532	0
	08-Sep	09-Oct	150	5.23	5.8000	99.5570	0
	15-Sep	16-Oct	150	6.63	5.8000	99.5570	0
	22-Sep	23-Oct	150	4.80	5.8000	99.5570	0
	29-Sep	30-Oct	150	6.75	5.8100	99.5563	0
	06-Oct	06-Nov	150	6.96	5.8090	99.5564	1
	13-Oct	13-Nov	150	6.83	5.8100	99.5563	0
	20-Oct	20-Nov	150	4.67	5.8000	99.5570	0
	27-Oct	27-Nov	150	5.83	5.8200	99.5555	0
	03-Nov	04-Dec	150	7.00	5.7933	99.5575	1
	10-Nov	11-Dec	150	5.63	5.8167	99.5558	0
	17-Nov	18-Dec	150	5.40	5.7800	99.5586	0
	24-Nov	27-Dec	150	5.63	5.7500	99.5296	0
	01-Dec	02-Jan	150	4.50	5.7200	99.5476	0
	08-Dec	08-Jan	150	3.30	5.7000	99.5646	0
	15-Dec	15-Jan	300	4.47	5.7000	99.5646	0
	22-Dec	22-Jan	250	3.98	5.6800	99.5970	0
	29-Dec	29-Jan	250	3.40	5.6800	99.5816	0
	05-Jan	05-Feb	500	4.77	5.6800	99.5662	0
	12-Jan	12-Feb	250	7.22	5.7940	99.5575	1
	19-Jan	19-Feb	150	7.90	5.7650	99.5597	1
	26-Jan	26-Feb	150	5.97	5.6933	99.5652	1
	02-Feb	05-Mar	150	6.73	5.6700	99.5669	0
	09-Feb	12-Mar	150	6.67	5.5900	99.5730	0
	16-Feb	19-Mar	500	7.02	5.5492	99.5761	0
	23-Feb	26-Mar	700	8.92	5.4950	99.5802	1
	02-Mar	02-Apr	500	6.54	5.4700	99.5821	0
	09-Mar	09-Apr	500	8.64	5.4925	99.5804	1
	16-Mar	17-Apr	500	6.16	5.3820	99.5742	2
	23-Mar	23-Apr	500	7.15	5.3900	99.5882	1
	30-Mar	30-Apr	500	7.46	5.4297	99.5852	0

	Date	Maturity date	Size £mn	Cover	Avg Yield %	Avg Price £	Yield tall
3-month	07-Apr	10-Jul	100	6.15	5.9800	98.5310	0
	14-Apr	17-Jul	100	7.95	5.9500	98.5383	0
	20-Apr	24-Jul	100	5.05	6.0470	98.5309	0
	28-Apr	31-Jul	100	5.45	6.0465	98.5310	0
	05-May	07-Aug	100	5.50	6.0100	98.5237	1
	12-May	14-Aug	100	5.05	6.0800	98.5068	0
	19-May	21-Aug	100	4.55	5.9400	98.5407	0
	26-May	29-Aug	100	4.90	5.9500	98.5383	0
	02-Jun	04-Sep	100	5.80	5.9600	98.5358	0
	09-Jun	11-Sep	100	4.90	5.9600	98.5358	0
	16-Jun	18-Sep	100	5.55	5.8987	98.5507	0
	23-Jun	25-Sep	100	5.75	5.9500	98.5383	0
	30-Jun	02-Oct	100	3.50	5.9325	98.5425	2
	07-Jul	09-Oct	100	6.70	5.9130	98.5472	2
	14-Jul	16-Oct	100	7.25	5.9050	98.5492	1
	21-Jul	23-Oct	100	6.07	5.9300	98.5431	0
	28-Jul	30-Oct	100	6.30	5.9295	98.5432	0
	04-Aug	06-Nov	100	7.25	5.9000	98.5504	0
	11-Aug	13-Nov	100	6.50	5.8700	98.5576	0
	18-Aug	20-Nov	100	6.50	5.8600	98.5601	0
	25-Aug	27-Nov	100	4.25	5.9000	98.5661	0
	01-Sep	04-Dec	100	2.00	5.8606	98.5389	2
	08-Sep	11-Dec	100	5.75	5.8900	98.5528	1
	15-Sep	18-Dec	100	7.02	5.8900	98.5528	0
	22-Sep	27-Dec	100	6.75	5.8300	98.5363	0
	29-Sep	02-Jan	100	6.75	5.8500	98.5469	0
	06-Oct	08-Jan	100	7.75	5.8472	98.5632	0
	13-Oct	15-Jan	100	8.50	5.8500	98.5625	0
	20-Oct	22-Jan	100	6.75	5.8200	98.5697	0
	27-Oct	29-Jan	100	7.75	5.8100	98.5722	0
	03-Nov	05-Feb	100	7.50	5.8000	98.5746	0
	10-Nov	12-Feb	100	6.95	5.8000	98.5746	0
	17-Nov	19-Feb	100	7.45	5.7650	98.5831	0
	24-Nov	26-Feb	100	5.95	5.7400	98.5891	0
	01-Dec	05-Mar	100	6.45	5.7200	98.5940	0
	08-Dec	12-Mar	100	4.65	5.7121	98.5959	1
	15-Dec	19-Mar	100	6.47	5.7065	98.5972	0
	22-Dec	26-Mar	100	4.45	5.7000	98.6292	0
	29-Dec	02-Apr	100	3.90	5.6900	98.6164	0
	05-Jan	09-Apr	100	5.60	5.5380	98.6381	0
	12-Jan	17-Apr	100	7.75	5.5800	98.6130	2
	19-Jan	23-Apr	100	9.50	5.5580	98.6332	4
	26-Jan	30-Apr	100	7.70	5.5700	98.6303	0
	02-Feb	08-May	100	6.90	5.5700	98.6155	0
	09-Feb	14-May	100	10.00	5.4950	98.6485	1
	16-Feb	21-May	100	8.80	5.5320	98.6396	1
23-Feb	29-May	100	9.58	5.4623	98.6419	1	
02-Mar	04-Jun	100	9.15	5.3750	98.6777	2	
09-Mar	11-Jun	100	10.66	5.3532	98.6829	2	
16-Mar	18-Jun	100	8.40	5.2680	98.7036	0	
23-Mar	25-Jun	100	9.15	5.2000	98.7202	0	
30-Mar	02-Jul	100	7.05	5.2920	98.6978	1	

One month tender yields compared with one month GC repo and LIBOR rates (2000-01)



Three month tender yields compared with three month GC repo and LIBOR rates (2000-01)



Overall, the issuance of Treasury bills provided better rates of funding than would have been represented by the BBA GC repo fixing. The average yield out-performance for 1-month issuance was 5.3 basis points and for 3-month issuance 3.7 basis points.

	(%)	1 month	3 month
Average tender yield		5.742	5.768
Average GC repo rate on tender settlement day		5.795	5.806
Tender outperformance		0.053	0.037

Compared to LIBOR the levels of outperformance rise to 24.8 basis points (1-month) and 28.6 basis points (3-months).

Ad hoc Treasury bill tenders

The DMO only carried out two ad hoc Treasury bill tenders in 2000-01, on 12 and 27 April as part of the management of cash inflows expected in late April-early May 2000. The results are shown in the table below.

Date	Maturity	Size	Cover	Average yield%	Average price
12-Apr-00	14 day	£350mn	8.07	5.8000	£99.7780
27-Apr-00	26 day	£500mn	4.00	5.9000	£99.5810

ANNEX E: Treasury bill tender results (April-December 2001)

1-month bills

	Date	Maturity date	Size £mn	Cover	Avg Yield	Avg Price	Yield tall
1-month	06-Apr	08-May	300	7.87	5.2000	99.5885	0
	12-Apr	14-May	150	6.37	5.2467	99.6134	0
	20-Apr	21-May	150	8.87	5.2393	99.5997	0
	27-Apr	29-May	150	6.57	5.1933	99.5891	1
	04-May	04-Jun	150	8.03	5.1610	99.6197	4
	11-May	11-Jun	150	8.37	5.1000	99.6103	0
	18-May	18-Jun	150	5.57	5.0264	99.6159	2
	25-May	25-Jun	150	7.57	5.0700	99.6264	0
	01-Jun	02-Jul	150	6.57	5.0724	99.6124	1
	08-Jun	09-Jul	500	7.33	5.0631	99.6131	1
	15-Jun	16-Jul	750	7.53	4.9433	99.6222	1
	22-Jun	23-Jul	750	7.15	4.9331	99.6230	1
	29-Jun	30-Jul	750	4.79	4.9986	99.6180	0
	06-Jul	06-Aug	750	6.73	5.0471	99.6143	0
	13-Jul	13-Aug	400	6.49	5.0400	99.6149	0
	20-Jul	20-Aug	150	7.63	5.0500	99.6141	0
	27-Jul	28-Aug	150	8.65	5.0514	99.6003	1
	03-Aug	03-Sep	150	7.50	4.8367	99.6303	1
	10-Aug	10-Sep	150	8.37	4.7460	99.6372	0
	17-Aug	17-Sep	150	6.63	4.8000	99.6331	0
	24-Aug	24-Sep	150	9.58	4.8461	99.6428	0
	31-Aug	01-Oct	150	6.62	4.7831	99.6344	2
	07-Sep	08-Oct	150	8.67	4.7800	99.6347	0
	14-Sep	15-Oct	150	8.60	4.8000	99.6331	0
	21-Sep	22-Oct	150	7.63	4.4300	99.6613	0
	28-Sep	29-Oct	150	8.47	4.3933	99.6641	1
	05-Oct	05-Nov	300	8.13	4.3371	99.6684	1
	12-Oct	12-Nov	300	9.52	4.3667	99.6661	0
	19-Oct	19-Nov	300	8.33	4.3907	99.6643	1
	26-Oct	26-Nov	300	8.29	4.2485	99.6751	0
	02-Nov	03-Dec	500	6.99	4.0932	99.6870	0
	09-Nov	10-Dec	500	7.66	3.7886	99.7102	0
	16-Nov	17-Dec	750	6.69	3.7838	99.7106	1
	23-Nov	24-Dec	900	6.39	3.7435	99.7137	1
	30-Nov	31-Dec	1000	5.23	3.8323	99.7069	2
	07-Dec	07-Jan	1000	6.27	3.8650	99.7044	1
	14-Dec	14-Jan	1000	6.32	3.8849	99.7029	1
	21-Dec	21-Jan	600	5.43	3.9000	99.7017	0
	28-Dec	28-Jan	600	4.37	3.9150	99.7006	1

3-month bills

	Date	Maturity date	Size £mn	Cover	Avg Yield	Avg Price	Yield tall
3-month	06-Apr	09-Jul	100	8.55	5.1975	98.7208	0
	12-Apr	16-Jul	100	5.45	5.2500	98.7220	0
	20-Apr	23-Jul	100	10.35	5.1690	98.7277	2
	27-Apr	30-Jul	100	8.02	5.1104	98.7419	2
	04-May	06-Aug	100	8.30	5.0775	98.7635	2
	11-May	13-Aug	100	7.80	5.0400	98.7590	1
	18-May	20-Aug	100	5.85	5.0150	98.7651	1
	25-May	28-Aug	100	6.35	5.0400	98.7590	0
	01-Jun	03-Sep	100	6.20	5.0220	98.7634	2
	08-Jun	10-Sep	100	9.10	5.0303	98.7614	2
	15-Jun	17-Sep	100	8.70	5.0380	98.7595	0
	22-Jun	24-Sep	100	9.80	5.0470	98.7573	1
	29-Jun	01-Oct	100	7.55	5.1000	98.7445	0
	06-Jul	08-Oct	100	8.80	5.0820	98.7488	2
	13-Jul	15-Oct	100	7.39	5.0570	98.7549	1
	20-Jul	22-Oct	100	6.80	5.0300	98.7615	0
	27-Jul	29-Oct	100	8.65	5.0400	98.7590	0
	03-Aug	05-Nov	100	8.06	4.8395	98.8078	1
	10-Aug	12-Nov	200	8.75	4.7500	98.8296	0
	17-Aug	19-Nov	200	7.53	4.7800	98.8223	0
	24-Aug	26-Nov	200	10.85	4.8000	98.8303	0
	31-Aug	03-Dec	200	6.85	4.7100	98.8394	0
	07-Sep	10-Dec	200	10.30	4.6970	98.8425	0
	14-Sep	17-Dec	200	9.35	4.5713	98.8732	3
	21-Sep	24-Dec	200	8.23	4.3197	98.9345	0
	28-Sep	31-Dec	200	8.78	4.3290	98.9322	1
	05-Oct	07-Jan	500	7.45	4.2000	98.9637	0
	12-Oct	14-Jan	500	7.01	4.2280	98.9569	2
	19-Oct	21-Jan	500	7.98	4.2145	98.9602	2
	26-Oct	28-Jan	500	7.78	4.1584	98.9739	0
	02-Nov	04-Feb	500	7.18	4.0035	99.0117	2
	09-Nov	11-Feb	600	7.96	3.7291	99.0789	0
	16-Nov	18-Feb	700	8.36	3.7821	99.0659	1
	23-Nov	25-Feb	700	6.31	3.7579	99.0718	0
	30-Nov	04-Mar	700	5.36	3.8069	99.0598	1
	07-Dec	11-Mar	700	6.26	3.8485	99.0496	2
	14-Dec	18-Mar	700	6.60	3.8571	99.0475	1
	21-Dec	25-Mar	700	5.36	3.8900	99.0395	0
	28-Dec	02-Apr	700	5.31	3.8333	99.0338	1

Annex F: The transitional arrangements

As noted above (paragraph 3.4) to ensure a smooth transition to the new arrangements the features of the new regime were phased in over several months.

2. The Debt Management Account, through which all the DMO's gilt and cash transactions now pass, came into operation on 15 November 1999 (dealing initially with gilt transactions only).
3. On 14 January 2000, the DMO took over responsibility from the Bank for the conduct of weekly Treasury bill tenders, although the Bank retained responsibility for determining the size and maturity of the tenders until the transfer of cash management was completed.
4. On 14 February 2000 the DMO began bilateral dealing with its counterparties in the money markets, in small size, with the aim of helping to balance the daily flows of cash into, and out of, the Exchequer accounts at the Bank of England. During this period, the Bank retained final responsibility for balancing the Exchequer flows daily.
5. The results of the Treasury bill tenders carried out by the DMO under the transitional arrangements were as shown in the following table.

Date	Maturity	Size	Cover	Avg Yield%	Avg Price
14-Jan-00	3 month	£100mn	9.75	5.7250	£98.5928
21-Jan-00	3 month	£100mn	8.70	5.8390	£98.5496
28-Jan-00	3 month	£100mn	6.30	5.8496	£98.5470
04-Feb-00	3 month	£100mn	9.20	5.8860	£98.5538
11-Feb-00	3 month	£100mn	5.55	5.9200	£98.5455
18-Feb-00	3 month	£100mn	7.35	5.9480	£98.5387
25-Feb-00	3 month	£100mn	6.06	5.9299	£98.5274
03-Mar-00	3 month	£100mn	6.85	5.9500	£98.5383
10-Mar-00	3 month	£100mn	7.95	5.9300	£98.5431
10-Mar-00	1 month	£250mn	6.88	5.8460	£99.5535
17-Mar-00	3 month	£100mn	9.45	5.9282	£98.5435
	1 month	£500mn	5.89	5.8500	£99.5532
24-Mar-00	3 month	£100mn	5.70	5.9000	£98.5504
	1 month	£750mn	3.99	5.7297	£99.5468
31-Mar-00	3 month	£100mn	5.96	5.9289	£98.5434
	1 month	£150mn	4.23	5.8000	£99.5413

Treasury bill tenders: January-March 2000

6. Until March 2000, all DMO tenders had been for 3-month maturity bills but additional (£1.65bn) tenders of 1-month maturity bills were held in March 2000, increasing the total Treasury bill stock towards £3bn. £1.3bn of the additional proceeds was invested in short-term assets to help manage the cash inflow expected in late April 2000. The stock of Treasury bills at the end of the 1999-2000 financial year (and inherited by the DMO on the assumption of full responsibility for cash management) was £2.8 billion.

Treasury bill stocks: January – March 2000

	£mn		Total
	3 Month Stock	1 Month Stock	
31-Dec-99	1,300	4,200	5,500
07-Jan-00	1,300	3,000	4,300
14-Jan-00	1,300	1,800	3,100
21-Jan-00	1,300	600	1,900
28-Jan-00	1,300	0	1,300
04-Feb-00	1,300	0	1,300
11-Feb-00	1,300	0	1,300
18-Feb-00	1,300	0	1,300
25-Feb-00	1,300	0	1,300
03-Mar-00	1,300	0	1,300
10-Mar-00	1,300	250	1,550
17-Mar-00	1,300	750	2,050
24-Mar-00	1,300	1,500	2,800
31-Mar-00	1,300	1,500	2,800

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