

22/01

10 July 2001

PRESS NOTICE

INDEX-LINKED GILT SWITCH AUCTION

SOURCE STOCK: 2% Index-linked Treasury Stock 2006

DESTINATION STOCK: 2½% Index-linked Treasury Stock 2016

MAXIMUM NOMINAL AMOUNT OF SOURCE STOCK SWITCHABLE: £500 million

SWITCH AUCTION DATE: 19 July 2001

The United Kingdom Debt Management Office (the "DMO") announces that it will auction 2½% Index-linked Treasury Stock 2016 (the "destination stock") in exchange for up to £500 million nominal of 2% Index-linked Treasury Stock 2006 (the "source stock") on Thursday, 19 July 2001. The creation and settlement of the new amounts of 2½% Index-linked Treasury Stock 2016 will be effected on Friday, 20 July 2001. The nominal amount of 2% Index-linked Treasury Stock 2006 purchased at the switch auction will be cancelled on Friday, 20 July 2001.

Further details on Index-linked gilt switch auctions are contained in a response paper published by the DMO on 10 May 2001 to a consultation document and in an addendum to the DMO's Operational Notice on Official Operations in the Gilt-Edged Market published on the same date.

Bidding arrangements

The switch auction announced today is open to all holders of 2% Index-linked Treasury Stock 2006 although holders who are not Index-linked Gilt-Edged Market Makers ("IG GEMMs") may only make bids through IG GEMMs. This switch auction will be conducted on a uniform price basis and successful competitive bidders will be allotted stock at the common allotment price (the "striking price"). A non-competitive facility will not be available.

The bidding procedure on Thursday, 19 July 2001 will be as follows:



- At 10.00am, the DMO will announce a fixed clean price for 2% Index-linked Treasury Stock 2006. This will be used as the basis for settling allocations of 2½% Index-linked Treasury Stock 2016.
- IG GEMMs only may bid by telephone, for their own account or on behalf of clients, directly to the DMO's dealing room. Between 10.00am and 10.20am, IG GEMMs may make an unlimited number of bids. Between 10.20am and 10.30am each IG GEMM is limited to a further ten bids.
- Each bid will consist of the *quantity* of 2% Index-linked Treasury Stock 2006 offered, in round £ millions nominal, and the *clean price bid* for 2½% Index-linked Treasury Stock 2016, expressed as a multiple of 0.01 of £1 (i.e. to 2 decimal places).
- Bidding closes at 10.30am.
- The DMO aims to publish the results of the switch auction on its wire services pages within forty minutes of the close of bidding.
- The results will also be made available in a press notice and on the DMO's web site at: www.dmo.gov.uk.

Allocations of stock

As already noted, index-linked switch auctions are conducted on a uniform price basis with no minimum price. The DMO will rank the bids according to the prices bid for 2½% Index-linked Treasury Stock 2016 and transact the switch, at the striking price, with the highest bidders.

The DMO fully intends to purchase the £500 million nominal of 2% Index-linked Treasury Stock 2006 announced but reserves the right not to do so. This right would only be exercised in exceptional circumstances. Any shortfall from the pre-announced maximum simply means that less of the destination stock will be created. This would be announced on screen with the results of the switch auction. The DMO plans to cancel the amounts of 2% Index-linked Treasury Stock 2006 it buys in through this auction on the day of settlement.

The DMO will allot stock to individual bidders at its absolute discretion. In particular it may decline to allot stock to any individual bidder (IG GEMM or end-investor) if it appears that to do so would be likely to lead to market distortion. Successful bidders should not expect to acquire at the auction for their own account more than 40% of the destination stock created.



Settlement of allocations

The nominal quantities of 2½% Index-linked Treasury Stock 2016 created and allocated to each IG GEMM will be calculated according to the ratio of the dirty prices of the two stocks, rounded to the nearest fourth decimal place, multiplied by the nominal quantity of the source stock bid (or, where applicable, the percentage of the amount bid at the striking price), subject to any applicable scaling factor. The creation and settlement of the new amounts of 2½% Index-linked Treasury Stock 2016 will be effected on Friday, 20 July 2001. Settlement should be effected through the CREST system by means of a *free of payment Complex Delivery* (“*Many to Many*” – “*MTM*”) transaction type; the counterparty to the transaction will be Participant ID “RA001”. Use of this transaction type will ensure that the quantity of 2% Index-linked Treasury Stock 2006 delivered for cancellation and the allocation of the relevant amount of 2½% Index-linked Treasury Stock 2016 to the IG GEMM is simultaneous.

NOTE TO EDITORS

2% Index-linked Treasury Stock 2006 drops out of the FTSE over 5-year Index-linked gilt index *after* the close of business on 19 July 2001. In order to facilitate switching longer by Index-linked index-tracking funds, the DMO’s Remit from the Treasury for the financial year 2001-02 states (paragraph 22) that, subject to the conclusions of a consultation exercise with the market on the introduction of IG switch auctions, the DMO may launch such auctions in 2001-02.

The DMO published a consultation paper on 12 March 2001, (‘Index-linked Gilt Switch Auctions: Consultation Document’), on extending the conventional gilt switch auction framework to index-linked gilts, inviting comments on its proposals by 6 April 2001. The DMO published its response to this consultation on 10 May 2001. On 10 May 2001 it also announced its intention to hold its first index-linked gilt switch auction, out of 2% Index-linked Treasury Stock 2006, in the second half of July 2001. The date and destination stock were announced on 29 June 2001.

This press notice, together with the Offer Document for this switch auction, will be appearing on the DMO’s web site at: www.dmo.gov.uk.



<u>Stock</u>	<u>Nominal amounts outstanding</u>
2% Index-linked Treasury Stock 2006	£2,500 million
2½% Index-linked Treasury Stock 2016	£4,965 million

