

EXCHEQUER CASH MANAGEMENT IN THE UNITED KINGDOM

CASH MANAGEMENT OPERATIONAL NOTICE

&

TREASURY BILL INFORMATION MEMORANDUM

United Kingdom
**Debt
Management
Office**

18 February 2010

EXCHEQUER CASH MANAGEMENT IN THE UK - OPERATIONAL NOTICE DATED 18 FEBRUARY 2010

This combined Operational Notice and Information Memorandum sets out the arrangements for Exchequer cash management operations undertaken by the UK Debt Management Office (DMO). It outlines the typical cash management operations currently undertaken, although these may vary from time to time. This Operational Notice and Information Memorandum replaces the version issued on 11 September 2003.

Firms or institutions wishing to instigate or maintain a dealing relationship with the DMO are requested to familiarise themselves with the content of this Operational Notice and Information Memorandum, and to sign agreements confirming that they accept the terms of the relevant section(s).

The DMO may change this Operational Notice and Information Memorandum from time to time and the acceptance of this Operational Notice and Information Memorandum will be deemed also to be acceptance of any future changes.

Any questions on this notice should be raised with the DMO's cash management dealing desk.

Contacts:

Chris Ryan (0845 357 6527, chris.ryan@dmo.gsi.gov.uk)

Ian Spridgeon (0845 357 6530, ian.spridgeon@dmo.gsi.gov.uk)

Tim Simmonds (0845 357 6511, tim.simmonds@dmo.gsi.gov.uk)

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INTRODUCTION

The Government's cash management objective is to ensure that sufficient funds are always available to meet any net daily central government cash shortfall and, on any day when there is a net cash surplus, to ensure this is used to best advantage. HM Treasury and the DMO work together to achieve this objective.

HM Treasury's role in this regard is to make arrangements for a forecast of the daily net flows into or out of the National Loans Fund (NLF); its objective in so doing is to provide the DMO with timely and accurate forecasts of the expected net cash position over time.

The DMO's role is to make arrangements for funding and for placing the net cash positions, primarily by carrying out market transactions in the light of the forecast; its objective in so doing is to minimise the costs of Government cash management while operating within risk limits approved by Ministers.

Cash management objective

"The DMO's cash management objective is to minimise the cost of offsetting the Government's net cash flows over time, while operating within a risk appetite approved by Ministers. In so doing, the DMO will seek to avoid actions or arrangements that would:

- a) undermine the efficient functioning of the Sterling money markets or*
- b) conflict with the operational requirements of the Bank of England for monetary policy implementation."*¹

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

¹ Paragraph 6.5 of *The Debt Management Office's financing remit for 2009-10* published on 22 April 2009

Cash management counterparty selection

The DMO deals with a wide range of counterparties on a bilateral basis and values those counterparties with whom it can transact on a regular basis, including participation in weekly tenders for Treasury bills and in bilateral dealings in money market instruments.

Counterparties must be FSA-regulated financial institutions or intermediaries. A list of the DMO's counterparties is not published, but a list of recognised Treasury Bill Primary Participants is available on the DMO website.

The key features of a Cash Management bilateral counterparty relationship with the DMO are some or all of the following:

- Access to the DMO's Treasury bill and ad hoc tenders.
- Access to the DMO's Repo / Reverse Repo ad hoc tenders.
- Access to the DMO's Standing Repo Facility.
- The ability to deal with the DMO on a bilateral basis in one or more of the four types of instrument listed in this Operational Notice (see sections 1-4).
- Consultations with the DMO on money market issues and the DMO's policies.

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 documentation².
- Acceptance of the terms contained within this Operational Notice.
- Acceptance of the UK Sterling Treasury Bills Information Memorandum (for participation at Treasury bill tenders).
- Confirmation of the counterparty's regulatory status and details of its legal constitution.

² The DMO's GMRA documentation (where the counterparty intends to enter into repo or reverse repo transactions with the DMO) and/or ISDA documentation (in each case together with supporting documentation such as a legal opinion) and also a letter confirming the counterparty's agreement to adhere to the relevant section(s) of this and subsequent versions of the Operational Notice.

- Agreement of margining arrangements.
- Provision of Standard Settlement Instructions and lists of authorised signatories and contacts.
- Where appropriate, establishment of a direct, dedicated telephone link to the DMO's dealing desk.
- Completion of the DMO's due diligence checks and counterparty credit assessment.

Expressions of interest in becoming a DMO Cash Management counterparty should be made in the first instance to the DMO's cash management dealing desk.

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RANGE OF INSTRUMENTS

The DMO trades in a range of selected instruments with cash management counterparties and other market participants or intermediaries and scores its exposures to any issuer or counterparty against its internal credit usage and counterparty limits. The DMO's "Dealing arrangements" - as set out in Annex A - shall apply in the case of transactions entered into with the DMO.

The principal instruments in which the DMO may transact for cash management purposes are set out below. The DMO may revise the range of instruments used from time to time, in which case any revised list would be published in the money markets section of the DMO's website at: www.dmo.gov.uk.

Instruments

Cash deposits

Gilts (delivery by value (DBV³) and General Collateral (GC) including strips)

UK Treasury bills

Selected sovereign debt and short-term debt⁴

Selected bank bills

Selected Certificates of Deposit

Selected Commercial Paper

Selected Corporate Debt

The DMO may also enter into short-term currency swaps and transact in forward rate agreements, interest rate swaps, interest rate forwards or futures, in each case with a tenor of up to 12 months.

Eligible currency denominations

For the most part, DMO transacts in sterling. It will not transact in currencies other than £, \$, € or ¥

Eligible maturities

The DMO may transact in gilt, Euro and/or corporate repo and reverse repo, Treasury bills, certificates of deposit, commercial paper and short-term debt with counterparties for maturities of up to 1 year, and outright purchases and sales of gilts (including strips) within 6 months to maturity.

³ The DMO intends to use and will only accept the Unstripped British Gilts (UBG) class of Delivery by Value (DBV).

⁴ Debt instruments issued by high quality issuers, including supranationals and foreign governments.

SECTION 1

UNSECURED DEPOSITS

The DMO may deal on an unsecured cash basis both as a lender and a borrower. Transactions may be entered into on a bilateral basis or, where the counterparty does not have an established relationship with the DMO, through a recognised broker. The DMO's "Dealing arrangements" - as set out in Annex A - shall apply in the case of transactions entered into with the DMO.

Counterparties wishing to enter into a relationship with the DMO in respect of this Section must be regulated by the Financial Services Authority (or its equivalent). Counterparties wishing to borrow from the DMO on unsecured terms must also satisfy the requirements of DMO's credit policy as determined from time to time. Entities wishing to deposit monies with the DMO through a third party agent must themselves be regulated by the Financial Services Authority (or its equivalent).

Interest rates quoted by DMO dealers will be determined by prevailing market rates for the relevant maturity and the DMO's own cash position at the time.

SECTION 2

REPO / REVERSE REPO

Subject to the appropriate agreements⁵ being in place, the DMO may transact in repos and reverse repos of gilts (including strips) and other selected securities with up to 12 months to maturity. The DMO's "Dealing arrangements" - as set out in Annex A - shall apply in the case of transactions entered into with the DMO.

The DMO refers to the amount of a repo / reverse repo transaction in cash terms as opposed to nominal securities terms (i.e. £10 million at the start leg of a repo will signify £10 million of cash not nominal of securities). 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 initial point of trade. For all reverse repo transactions other than DBV, the DMO requires counterparties to identify the securities being given in a timely manner.

The DMO marks to market its exposures to its repo counterparties and will call for margin, if required, on a daily or more frequent basis. Where initial margin (a "haircut") is to be calculated on a repo or a reverse repo transaction in respect of gilts, the DMO follows the calculation methodology set out in the Gilt Repo Code of Guidance produced by the Securities Lending and Repo Committee and the Sterling Money Market Liaison Group.

As the issuer of gilts, the DMO also operates Standing and Special Gilt Repo Facilities, whereby, subject to the appropriate agreements⁶ being in place, additional amounts of individual gilts may be created, for lending purposes only, to ease actual or potential scarcities of gilts in the repo market. The Standing Gilt Repo Facility is available to certain DMO cash management counterparties such as GEMMs.

⁵ At the time of publication the DMO uses the TBMA/ISMA Global Repurchase Master Agreement – 2000 Version, as supplemented by the DMO's standard form Annex.

⁶ At the time of publication the DMO uses a modified PSA/ISMA Global Repurchase Master Agreement – 1995 Version for Standing Gilt Repo Facility transactions.

SECTION 3

OTHER DEALINGS

Subject to its cash management requirements and the appropriate agreements⁷ being in place, the DMO may enter into short-term currency swaps (at present limited to sterling/euro swaps) with a tenor of up to 12 months. The DMO may exceptionally also consider other transactions such as forward rate agreements, interest rate swaps, interest rate forwards or futures, in each case with a tenor of up to 12 months, to manage interest rate exposures. All foreign currency exposures will be hedged back into sterling.

The DMO marks to market its exposures to its swap counterparties and will call for margin, if required, on a daily or more frequent basis. Such margin will typically be in the form of gilts or pre-agreed Euro-denominated sovereign debt. The DMO will call for margin from, and will return margin to, any counterparty but the DMO will not post margin to any counterparty (i.e. where its exposure to any counterparty results in a negative figure its exposure is deemed to be zero).

The DMO's "Dealing arrangements" – set out in Annex A – shall apply in the case of transactions entered into with the DMO.

⁷ At the time of publication the DMO uses the 1992 ISDA Master Agreement – Multicurrency – Cross Border, as supplemented by the DMO's standard form Schedules including the 1995 ISDA Credit Support Annex (Bi-lateral form – Transfer).

SECTION 4

UK TREASURY BILLS

UK 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 or the National Loans Fund. Treasury bills are zero-coupon eligible debt securities⁸. The DMO issues Treasury bills through regular weekly and ad hoc tenders, and it may issue bills bilaterally upon request from recognised counterparties, subject to certain conditions.

Full details regarding the DMO's Treasury bill operations can be found in the ***UK Treasury Bills Information Memorandum*** that accompanies this Operational Notice.

⁸ The term "eligible debt security" is the term used in the *Uncertificated Securities Regulations 2001* (SI 2001/3755), as amended, to refer to those uncertificated securities, which may be issued into CREST, creating rights and obligations which (so far as practicable) correspond to those in relation to paper-based negotiable money market instruments.

OTHER INFORMATION

Settlement arrangements

Unless specified otherwise, all transactions with the DMO are settled on the value date and in sterling. The DMO is prepared to transact in the instruments listed above, provided that settlement can take place in CREST or its equivalent, Clearstream or Euroclear and according to the DMO's settlement requirements and timetable. For any enquiries regarding settlement please contact the DMO's settlement team on 0845 357 6542 or 0845 357 6565.

For those counterparties who are successful at any UK Treasury Bill tender (regular or ad hoc), the DMO, will if requested, exchange written or electronic confirmations shortly after the tender result is published. Settlement will be by Delivery versus Payment via CREST.

Near maturity gilt purchases or sales may be settled through CREST or Euroclear.

End of day banking arrangements

The DMO targets a cumulative weekly balance on its account at the Bank of England. The target balance is intended to provide a cushion against unanticipated cash inflows or outflows and the balance may vary from day to day and the target balance may vary from week to week depending on uncertainty about forecast cash flows across the account.

JURISDICTION AND GOVERNING LAW

Subject as set out below, the English courts shall have exclusive jurisdiction to settle any dispute which might arise in connection with this Operational Notice or any transaction entered into under the provisions contained therein or any non-contractual obligations or matters arising therefrom or in connection therewith. However, the DMO reserves the right, to the extent allowed by law, to bring proceedings in any other court or concurrent proceedings in any number of jurisdictions. This clause is for the benefit of the DMO and is in addition to any governing law provision in any other agreement.

This Operational Notice and any notices making amendments to this Operational Notice together with any transaction entered into under its provisions, and any non-contractual obligations or matters arising therefrom or in connection therewith, are governed by and shall be construed in accordance with the laws of England.

REVISION

The right is reserved to amend or supplement this Operational Notice by further notices given from time to time; the DMO will endeavour to give adequate notice of any material changes. Any notice given under this paragraph will be published by the DMO in such manner as the DMO considers appropriate.

Annex A: Dealing arrangements

General terms and conditions for dealing

- Transactions may be agreed by means of telephone calls to the DMO's dealing desk or may be undertaken by means of a proprietary electronic trading system. Details regarding the systems used by DMO may be obtained from the DMO dealing desk.
- Transactions undertaken with the DMO are irrevocable, unless both parties are in agreement.
- Telephone calls to the DMO's dealing desk and settlements desk will be recorded⁹. The DMO's record of a deal will prevail in the event of any dispute or misunderstanding.
- Where any transaction has been undertaken by means of a proprietary electronic trading system, any dispute or misunderstanding will be resolved according to the dispute resolution procedure specified by the provider of that system.
- 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.

Annex B: DMO announcement pages

Information	Reuters/Telerate	Thomson	Bloomberg
Cash management announcements	DMO/CASH 01	44660 to 44669	DMO9<GO>
Weekly Treasury bill tender announcements and results	DMO/CASH 11	44670 to 44671	DMO10<GO>
Ad hoc tenders and results	DMO/CASH 16	44675 to 44676	DMO11<GO>
Treasury Bill reference prices	DMO/TBILLS01	44900	DMO12<GO>

⁹ The DMO's dealing room voice system is a BT ITS-based dealerboard system.

Counterparties will need to order a private digital voice circuit via IPC 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.

Annex C: DMO contacts

Cash dealing desk – participation/dealing issues

0845 357 6527 / 0845 357 6530 / 0845 357 6511 (dealers)
020 7452 0060 (Treasury bill tenders)
020 7452 0065 (DMADF)

Settlements team – settlement and custody issues

0845 357 6542
0845 357 6565

Risk management unit – legal/compliance issues

0845 357 6625 (legal issues)
0845 357 6523 (compliance issues)

Press/media issues

0845 357 6532

Telecommunications

0845 357 6573

UK TREASURY BILLS

INFORMATION MEMORANDUM

United Kingdom
**Debt
Management
Office**

18 February 2010

UK TREASURY BILLS INFORMATION MEMORANDUM – DATED 18 FEBRUARY 2010

This Information Memorandum sets out the main features of Treasury bills as a financial instrument, how they are issued, settled and traded and through whom. This Information Memorandum replaces the version issued on 11 September 2003.

The DMO may change this Information Memorandum from time to time and the acceptance of this Information Memorandum will be deemed also to be acceptance of any future changes.

Any questions on this Information Memorandum should be raised with the DMO's cash management dealing desk.

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Dedicated Treasury bill line (020 7452 0060)

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INTRODUCTION

The UK Debt Management Office (DMO) regards sterling Treasury bills as an intrinsic component in the UK Government's stock of marketable debt instruments, alongside gilts. HM Treasury's remit to the DMO each year specifies the stock of Treasury bills that are needed to contribute to Government financing over the financial year.

Treasury bills also play an important role in the Exchequer cash management operations to manage intra-year cash positions.

Description of the instrument

UK 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 or National Loans Fund. Treasury bills are zero-coupon eligible debt securities¹⁰. The DMO issues Treasury bills through regular weekly and ad hoc tenders, or it may issue bills bilaterally upon request from recognised counterparties, subject to certain conditions.

Treasury bills may be issued with a minimum maturity of 1 day and a maximum maturity of 364 days. However, weekly tenders are typically for maturities of 1 month (approximately 28 days), 3 months (approximately 91 days) and 6 months (approximately 182 days). Treasury bills will be fungible with bills of the same maturity date.

Treasury bills are transferable in multiples of one penny.

¹⁰ The term "eligible debt security" is the term used in the *Uncertificated Securities Regulations 2001* (SI 2001/3755), as amended, to refer to those uncertificated securities, which may be issued into CREST, creating rights and obligations which (so far as practicable) correspond to those in relation to paper-based negotiable money market instruments.

In credit risk terms Treasury bills have the same standing as gilt-edged securities (“gilts”). They qualify as zero risk-weighted instruments for the purposes of determining capital adequacy under the 1988 Basel Capital Accord.

Treasury bills can be used as collateral in the Bank of England’s Open Market Operations and in Real Time Gross Settlement (RTGS) and are included in the main traded class of gilt Delivery by Value (DBV) for repo transactions.

Treasury bills can be held in the CREST and Euroclear central depositories.

Pricing

Treasury bills are issued by the DMO at tenders 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:

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

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

WEEKLY TREASURY BILL TENDERS

Treasury bills are issued at weekly tenders, held by the DMO on the last business day of each week (i.e. usually on Fridays) for settlement on the following business day. The DMO announces the size of the each tender and the maturity of bills on offer at the preceding week's tender. These announcements are made on the DMO's wire service pages (see Annex B). Following the final weekly 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.

At the weekly tender the DMO will normally issue one-, three- and six-month bills. Once a maturity date is established by the issue of bills, later issues of bills with the same maturity date will be treated as a further issue of the original bills for that date and will therefore be fungible therewith.

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 next following business day.

The DMO may also issue Treasury bills to assist the Bank of England in its general management of the sterling money markets. If requested by the Bank of England, 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 of England. Such bills will be fungible with bills for the same maturity date issued by the DMO at its weekly tender or as a result of any bilateral transaction.

Since April 2008, the DMO has also issued Treasury bills for the Bank of England to use in its *Special Liquidity Scheme*. Treasury bills issued in support of the *Special Liquidity Scheme* are acquired directly by the Bank of England from the DMO and are not included in the month end totals of Treasury bill stocks reported on the DMO website. Further details of the *Special Liquidity Scheme* can be

found on the Bank of England website at:

<http://www.bankofengland.co.uk/markets/sls/sls-information.pdf>.

Bidding at weekly Treasury bill tenders

Treasury bill tenders are open to eligible DMO cash management counterparties and Treasury bill Primary Participants. The key features of the Treasury bill tender process are as follows:

- Subject as follows, bids by participants must be submitted electronically by means of the Bloomberg Bond Auction System. The DMO may agree, but is not obliged, to accept bids from any participant by telephone, such agreement to have been obtained before such bids are submitted. Notwithstanding this, the DMO may, in its absolute discretion, require some or all participants to submit some or all bids by telephone; the DMO will use reasonable endeavours to give participants reasonable advance warning of such requirement. Participants may make bids either on their own account or on behalf of clients. The “Dealing arrangements” – set out in Annex A – shall apply in the case of transactions entered into with the DMO.
- 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 means of the Bloomberg Bond Auction System by any one participant, and bids submitted via the Bloomberg Bond Auction System may be subsequently amended or cancelled, up until the close of bidding.
- All bids must specify the maturity of bills being bid for, and must be made on a percentage money market yield basis¹¹. Bids may be made up to

¹¹ See the section on pricing for the settlement convention the DMO uses for these purposes.

three decimal places, and must include the nominal amount bid for at each yield.

- Tenders are held on a competitive bid yield basis.
- All bids must be received by the pre-announced deadline (usually 11:00 am London time) on the day of the tender.

Processing of bids

At the close of bidding 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 (the cut-off point). Bids at the highest accepted yield may only receive a proportion of the nominal amount of bills bid for, scaled on a pro-rata basis, according to the volume of bids remaining to be allocated to clear the tender;
- reserve the right not to allot the total amount of bills on offer, to cancel any tender and not to 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. The scaling ratio will be rounded down to the nearest 0.01% with the residual retained by the DMO and held in its official portfolio of collateral available for cash management purposes; and
- publish the results of the tender on its wire services pages and on its web site www.dmo.gov.uk as soon as practicable after the close of bidding (which is normally 11:00am London time). The results will set out the amounts applied for and allotted respectively at each maturity, the lowest, average and highest accepted yields, the scaling ratio at the highest accepted yield together with the residual amount retained by the DMO¹²;

¹² The amounts allotted to bidders and the DMO will be rounded to the nearest £0.01m.

the results announcement will also include 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.

Successful bids at each tender are not legally deemed to have been 'accepted' until such time that DMO publishes the results of the tender, typically on its wire services pages and/or website or via a press notice.

Settlement arrangements

- Settlement of the Treasury bill allocations are made by means of Delivery versus Payment (DvP) in CREST on the settlement date unless in any particular case the DMO agrees a different method of settlement.
- Treasury bills may be held in CREST in nominal multiples of one penny and may be transferred in multiples thereof in secondary trading.
- Onward transactions in Treasury bills may also be settled in Euroclear and/or Clearstream.

Registration

Treasury bills will be held in the CREST system, which will constitute the central register of ownership for Treasury bills. Legal title will be evidenced by the entry of a given number of units against a holder's name in the relevant CREST record. This record will constitute the "Operator register of eligible debt securities" to be maintained by CREST.¹³ It is also possible to hold Treasury bills in Euroclear by means of its participation in CREST.

Failure to settle

The DMO reserves the right to claim compensation from any successful bidder in the event that payment is not received on the settlement date of the relevant tender for whatever reason.

¹³ *The Uncertificated Securities Regulations 2001* (SI 2001/3755), as amended, provide that the "Operator register of eligible debt securities" shall be prima facie evidence, and in Scotland sufficient evidence unless the contrary is shown, of any matters which are directed or authorised to be inserted in the register by the Regulations.

AD HOC TREASURY BILL TENDERS

In addition to issuing Treasury bills at weekly tenders, the DMO may also on occasion issue Treasury bills with maturities of up to approximately 28 days on an ad hoc basis. Bills issued through ad hoc tenders will be identical in every respect to those issued via weekly tenders and will generally be additional “taps” of existing Treasury bills. There are, however, some important distinctions in the bidding, settlement and administrative arrangements.

Timetable of ad hoc tenders

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 (see Annex B for DMO’s announcement pages). 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:

	<u>Slot 1</u>	<u>Slot 2</u>
Announcement & opening of tender	8:30am	10:00am
Close of tender	8:45am	10:15am
Aim to announce results by	9:00am	10:30am
CHAPS payments in by	1:30pm	1:30pm
CREST 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 at ad hoc tenders

- Subject as follows, bids by participants must be submitted electronically by means of the Bloomberg Bond Auction System. The DMO may agree, but is not obliged, to accept bids from any participant by telephone, such agreement to have been obtained before such bids are submitted. The DMO may do so, for example, where any participant does not have access to the Bloomberg Bond Auction System. Notwithstanding this, the DMO may in its absolute discretion require some or all participants to submit some or all bids by telephone; the DMO will use reasonable endeavours to give participants reasonable advance warning of such requirement. Participants may make bids either on their own account or on behalf of clients. The “Dealing arrangements” – set out in Annex A – shall apply in the case of transactions entered into with the DMO.
- Bidding at all ad hoc tenders will be on a competitive bid yield basis expressed up to three decimal places.
- Bids must be for a minimum of £5 million nominal at each yield and in £1 million nominal multiples thereafter.
- Each bid must specify: the maturity being bid for, the yield of each bid and the quantity of each bid. Separate bids must be made for each maturity.
- Bids must be received by the latest time specified as such in the DMO’s cash management announcement.
- 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.

Ad hoc tender results

The DMO aims to release the result of an ad hoc tender as soon as practicable after the close of the tender. At the cut-off point (the highest accepted yield) a scaling ratio will be calculated in the same way as for the weekly Treasury bill tenders and applied to all bids at the highest accepted yield. The scaling ratio will be rounded down to the nearest 0.01%.

The announcement of the result for each tender will contain details of the amount allocated / accepted, the average accepted yield, and the yield and the average weighted scaling at the cut-off point.

Settlement of ad hoc tenders

For those participants 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. Settlement will be by means of DvP in CREST for same day value in sterling.

BILATERAL TREASURY BILL ISSUANCE

The DMO is prepared to issue Treasury bills bilaterally, on request from any of its eligible cash management counterparties.

Bills issued in this way will only be created in circumstances where the DMO is satisfied that such issuance is consistent with its cash management operational requirements.

Prices quoted by DMO dealers will be determined by prevailing market rates for the relevant maturity and the DMO's own cash position at the time.

Requests for bilateral issues of Treasury bills

Counterparties may request the creation of existing bills only, with a minimum maturity of one-day. Only bills with a maturity which differs by at least five working days from the bills issued to the market at the regular tenders either preceding or succeeding the bilateral trade will be eligible to be issued in this way.

The minimum size of any such request is £500,000 nominal. There is no explicit limit on the maximum size of any bilateral transaction or on the size of any Treasury bills, whose size is increased as a result of the operation of this facility, although the DMO retains the right to limit the maximum size of any such request, according to its own cash position at the time.

Bills issued in this way will add to, and be fungible with, the stock of bills issued at regular tenders and such bills with the same maturity created for the Bank of England's *Special Liquidity Scheme*.

Settlement of bilateral Treasury bill issuance

Treasury bills to be issued on the same day as a request is made must be transacted and notified to the DMO settlements team before 10:30 am on the request date.

Treasury bills to be issued on a business day subsequent to the day a request is made may be transacted and notified to the DMO settlements team after 10:30 am on the request date.

Reporting of bilateral Treasury bill issuance

All bilateral bill issues will be included in the month end totals of Treasury bill stocks reported on the DMO website.

FURTHER INFORMATION

CREST reference prices

At the end of each business day (usually at 16:30pm London time) CREST reference prices for Treasury bills will be published by the DMO on its wire services pages (see Annex B). The prices will also appear on a daily basis on the DMO website. The prices will be based on a money market yield to maturity calculation priced around prevailing GC repo rates, adjusted by a spread reflecting recent Treasury bill tender results and, if applicable, any specific supply and demand factors.

Reference prices in CREST will provide an indicative mid price for CREST valuation of collateral transfers. The reference prices are not intended to represent market prices at which the securities could be traded and do not constitute an invitation or offer to buy or sell securities and should not be construed as investment advice.

Participation at tenders

Annex D contains a list of financial institutions that have agreed, subject to their own due diligence, to bid at Treasury bill tenders on behalf of investors; they may also provide secondary dealing levels for Treasury bills.

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.

Eligible bidders may tender 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 by tender.

Expressions of interest in becoming a bidder at Treasury bill tenders should be made in the first instance to the DMO's cash management dealing desk (0845 357 6518 / 0845 357 6527 / 0845 357 6511). Applicants are requested to familiarise themselves with the DMO's terms of counterparty selection outlined in its Cash Management Operational Notice, along with any systems, telecoms or other matters that may be involved.

Taxation

Withholding tax

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.

Provision of information to HM Revenue & Customs for exchange with other tax authorities

Under European Council Directive 2003/48/EC on the taxation of savings income (the "Directive"), as amended, EU Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland). On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On

13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

The *Reporting of Savings Income Information Regulations 2003*¹⁴ (the “2003 Regulations”) require a paying agent (as defined in the 2003 Regulations) established in the United Kingdom who makes a payment of savings income to an individual resident, or a residual entity (as defined in the 2003 Regulations) established, in another EU Member State or one of certain other non-EU countries and territories to obtain, verify, record and then provide to HM Revenue & Customs certain information about the payee and the payment.

¹⁴ *The Reporting of Savings Income Information Regulations 2003* (SI 2003/3297), as amended.

JURISDICTION AND GOVERNING LAW

Subject as set out below, the English courts shall have exclusive jurisdiction to settle any dispute which might arise in connection with Treasury bills or any bid for Treasury bills or any non-contractual obligations or matters arising therefrom or in connection therewith. However, in relation to any bid for Treasury bills, the DMO reserves the right, to the extent allowed by law, to bring proceedings in any other court or concurrent proceedings in any number of jurisdictions. This clause is for the benefit of the DMO.

This Information Memorandum and any notices making amendments to this Information Memorandum, together with any transaction entered into under its provisions, and any non-contractual obligations or matters arising therefrom or in connection therewith, are governed by and shall be construed in accordance with the laws of England.

REVISION

The right is reserved to amend or supplement this Information Memorandum by further notices given from time to time; the DMO will endeavour to give adequate notice of any material changes. Any notice given under this paragraph will be published by the DMO in such manner as the DMO considers appropriate.

Annex A: Dealing arrangements

General terms and conditions for dealing

- Deals transacted with the DMO are irrevocable, unless both parties are in agreement.
- Telephone calls to the DMO's dealing desk and settlements desk will be recorded¹⁵.
- 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.

Annex B: DMO announcement pages

Information	Reuters/Telerate	Thomson	Bloomberg
Cash management announcements	DMO/CASH 01	44660 to 44669	DMO9<GO>
Weekly Treasury bill tender announcements and results	DMO/CASH 11	44670 to 44671	DMO10<GO>
Ad hoc tenders and results	DMO/CASH 16	44675 to 44676	DMO11<GO>
Treasury bill reference prices	DMO/TBILLS01	44900	DMO12<GO>

Historical Treasury bill tender results appear on the DMO's website at www.dmo.gov.uk/index.aspx?page=tbills/tbill_tenders.htm.

¹⁵ The DMO's dealing room voice system is a BT ITS-based dealerboard system.

Counterparties will need to order a private digital voice circuit via IPC between their own and the DMO's 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.

Annex C: DMO contacts

Cash dealing desk – participation/dealing issues

0845 357 6527 / 0845 357 6530 / 0845 357 6511 (dealers)
020 7452 0060 (Treasury bill tenders)
020 7452 0065 (DMADF)

Settlements team – settlement and custody issues

0845 357 6542
0845 357 6565

Risk management unit – legal/compliance issues

0845 357 6625 (legal issues)
0845 357 6523 (compliance issues)

Press/media issues

0845 357 6532

Telecommunications

0845 357 6573

Annex D: Treasury bill primary participants (at 18 February 2010)¹⁶

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.

	(telephone numbers)
Bank of Scotland	020 7574 8514
Barclays Capital	020 7773 9650
BNP Paribas	020 7595 8644
Crédit Agricole CIB	020 7214 5113
Cater Allen International Ltd	020 7756 6939
Citi	020 7986 9435
Commerzbank	020 7475 8916
Credit Suisse	020 7888 4114
Deutsche Bank	020 7545 2090
Goldman Sachs International	020 7051 0111
HSBC	020 7991 5783
Investec Bank plc	020 7597 4242
King & Shaxson Ltd	020 7426 5972
Morgan Stanley	020 7677 7427
Newedge Group (UK) Branch	020 7676 8555
Nomura International	020 7103 2337
RBC Capital Markets	020 7029 7047
The Royal Bank of Scotland	020 7678 3221
The Royal Bank of Scotland (for private investors)	020 7256 6623
UBS Investment Bank	020 7567 2801

¹⁶ The DMO will update this list as necessary – a current version will appear in the money markets section of its website at: www.dmo.gov.uk.