UK Treasury bill repo announcement

The DMO announces that from 17th July 2002 it will use UK Treasury bills as collateral in repo and reverse-repo transactions with its cash management counterparties. This follows a consultation process with the DMO's Treasury bill primary participants, who agreed that this would be a welcome addition to the Treasury bill market.

The method, pricing, settlement and margin arrangements for Treasury bill repo and reverse repo have been agreed with the primary participants and are set out below.

Pricing / Valuation

Historically, UK Treasury bills have been issued at rates close to the British Bankers' Association (BBA) General Collateral (GC) repo fixing and, in credit risk terms, Treasury bills have the same standing as gilts. The DMO will therefore be using the previous day's BBA gilt GC fixings as an independent and transparent price and valuation source for marking to market purposes.

The BBA fixes can be found on the main wire service pages and are published shortly after 11am each business day.

The DMO will be applying the following "bands" around the BBA fixings to determine the yield when calculating the price for a given T-bill maturity.

T-bill maturity	**BBA fixing applied**
1 day to 7 days	1 week fix
8 days to 14 days	2 week fix
15 days to 21 days	3 week fix
22 days to 33 days	1 month fix
34 days to 65 days	2 month fix
66 days to 95 days	3 month fix
96 days to 188 days	6 month fix
189 days to 280 days	9 month fix
281 days to 364 days	1 year fix

Dealing methodology

The DMO will transact in repo in Treasury bills using the same methodology as gilt GC repo but will only trade in multiples of STG 10m (this avoids having to split any bills prior to delivery). For same-day settlement trades the DMO's cut off time for dealing in Treasury bill repo will be midday.

Below is an example of a Treasury bill repo deal:

Amount:	STG 100,000,000
Treasury bill:	Maturity date of 29 April 2002
Price:	99.51 (BBA two month rate is 3.98% T-bill matures in 45 days)
Repo rate:	4%
Start date:	15 March 2002
End date:	15 April 2002
Days:	31
Start leg cash	STG 99,510,000
Repo interest	STG 338,061.37
End leg cash:	STG 99,848,061.37

Initial Margin

Initial margin of 0.5% will be applied to Treasury bill repo deals, when dealing with certain counterparties. The level of initial margin required will be subject to periodic review. Taking the above example, a price of 99.51 with a 0.5% haircut will produce an all-in price of 99.01 (rounded to 2 decimal places).

Variation Margin

Where margin is needed this will be calculated on the basis of the DMO's total exposure across all repo deals under the relevant Master Agreement and not just Treasury bills. If the DMO has an exposure in Treasury bill repo with a counterparty, the DMO will accept Treasury bills as margin. The "bands" applied to pricing will also apply when calculating variation margin.

Settlement

Treasury bills will be settled as a “R” repo in the Central Money Markets Office (CMO) system free of payment, with cash being settled through CHAPS (when repoing Treasury bills the DMO would require the payment of cash before releasing the bills, and with a reverse repo the DMO would wait to see delivery of Treasury bills made to the DMO before releasing cash to the counterparty via CHAPS).

There are no facilities in CMO for automatically returning pledges or repos; the two stages of a repo transaction (outward and inward) are treated as two separate transactions. To unwind, the original taker must input a member-to-member delivery to the original giver. There is no facility for automatic unwinding, nor prompts of due dates.

If a Treasury bill is repoed to maturity the Treasury bill must mature in CMO as “O” outright, therefore the repo must be closed out and the bills redelivered to the beneficial owners before the maturity can occur. The counterparty must pay the proceeds for the end leg of the repo through CHAPS after which the DMO will instruct its settlement agent to deliver the bills back to the counterparty. The bills would then mature in the normal way in CMO, with cash passing in the end of day process.

The DMO offers to assist with the maturity of bills to prevent RTGS liquidity problems by paying the maturity proceeds via CHAPS against a free of payment delivery of the bills though CMO. If a counterparty decided to use this facility the DMO would instruct its settlement agent not to accept the maturities, this would enable the counterparty to delete the maturity by 9.15am on the maturity date and then redeliver the bills free of payment after which the DMO would make a CHAPS payment. In the case of repos done to the maturity date of the Treasury bill the DMO would need to arrange for the bills to be delivered free of payment after the return of the repo and then the DMO would make a CHAPS payment in settlement. Contact DMO settlements team on 020 7863 6542 for details.