

PRESS NOTICE

FUTURE OF UK GOVERNMENT'S CASH MANAGEMENT- THE NEW FRAMEWORK

The United Kingdom Debt Management Office ("the DMO") has today issued a report which sets out further details on the proposed operational arrangements to come into effect following the transfer of the UK Government's cash management to the DMO in 1999. The key points are set out below.

Key objective of the DMO's cash management operations

The DMO's key cash management objective will be to smooth the Exchequer's net daily cash flows that will cross the private sector: central government divide at the Bank of England. The DMO will not take speculative positions on interest rate decisions by the Bank; have contact with the Monetary Policy Committee (including the non-voting Treasury representative) with regard to interest rate decisions; or receive advance notice of policy statements and data releases impacting on the market's interest rate expectations.

A new framework for Treasury bill issuance

Treasury bills will be the key instrument used by the DMO to smooth the seasonal pattern of the Exchequer's cash flows. The DMO intends to introduce a new framework for weekly Treasury bill auctions whereby a wider range of maturities (1, 3, 6 and 12-months) will be issued on a regular, preannounced basis; a larger minimum amount of bills will be available each week and a minimum of £5 billion of bills will be maintained in issue at any one time.

Cash management bills

In addition to holding weekly Treasury bill auctions, the DMO intends to introduce less regular "cash management" Treasury bill auctions. Bills issued as a result of cash management



auctions would be identical instruments to those issued at the weekly auctions but would be for maturities of less than 28 days.

Other instruments to be used for dealing and to act as collateral

The DMO also intends to meet its daily cash management requirements through a combination of outright sales/purchases and repos/reverse repos of a range of money market and other instruments with its cash management counterparties. In addition to UK government paper, the DMO will be willing to deal in or take as collateral a wide range of high quality instruments including selected eligible bank bills, major highest-rated European government euro debt instruments and sterling debt instruments issued by the highest-rated supranational bodies.

Counterparties

To facilitate these market operations, the DMO will seek to deal with a wide range of counterparties and to develop an ongoing dealing relationship. Counterparties will be regular participants in the markets and instruments in which they propose to deal with the DMO and are therefore likely to be regulated financial intermediaries. Further details of counterparty and other dealing arrangements will be set out in an Operational Notice which the DMO intends to publish in the first quarter of 1999.

The Exchequer's banking arrangements post-cash management transfer

The Exchequer's banking arrangements with the Bank of England will remain largely unchanged although, as indicated in the December 1997 consultation paper, the Ways and Means facility will be frozen at the time of the transfer and subsequently repaid. The report published today sets out in more detail the proposed end-of-day banking arrangements the DMO intends to use, without recourse to the Ways and Means facility, in order to manage late movements over the Exchequer accounts without becoming overdrawn at the Bank.

Possible start date

The DMO's July 1998 progress report stated that the DMO might assume responsibility for cash management by April 1999. The time taken for setting up robust systems and other uncertainties in the project suggest that it may slip some months beyond April, possibly to the third quarter of 1999. A definitive timetable will be issued in due course.



NOTE TO EDITORS

1. The Chancellor of the Exchequer's letter of 6th May 1997 to the Governor of the Bank of England set out details of the new monetary policy framework and the transfer of sterling government debt and cash management responsibilities from the Bank to the Treasury. The UK Debt Management Office (DMO), an Executive Agency of the Treasury, took over debt management responsibilities on 1 April 1998 and has also been working on a new framework for Exchequer cash management.

2. Today's announcement provides a firm outline of the approach that the DMO intends to take to Government cash management following its intended transfer to the DMO in 1999. The Treasury published its outline proposals for the transfer on 29 July 1997 and a response to the consultation on 22 December 1997. A progress report was issued by the DMO on 30 July 1998. These documents, together with the document issued today, are available on request from Ellen Partridge at the DMO on 0171-862 6525. The document issued today also appears on the DMO's temporary website <http://www.bankofengland.co.uk/dmo>.

