

TERMS AND CONDITIONS OF SPECIAL REPO FACILITY: 6 AUGUST 2009

The UK Debt Management Office (DMO) is today announcing changes to the Terms and Conditions of its one-week Special Repo Facility, which is currently available in three gilts only – 5% Treasury Stock 2014, 5% Treasury Gilt 2018 and 4¾% Treasury Stock 2020. This document provides updated details of the terms and conditions under which the Special Repo Facility will operate from 7 August 2009, and supersedes those announced on 22 May and 15 July 2009, and will apply to new transactions entered into on and after 7 August.

Eligible Gilts

The Facility is available in 5% Treasury Stock 2014, 5% Treasury Gilt 2018 and 4¾% Treasury Stock 2020.

Eligible counterparties

The Facility is available to any to firms recognised by the DMO as Gilt-Edged Market Makers (GEMMs) that have signed the relevant legal documentation with the DMO.

Maturity of repo

Repos under this Facility will be for maturities of one-week at a time. The Facility may be rolled from week to week by counterparties, subject to the conditions listed below.

Price

Repo trades conducted under this Facility will be executed at a rate of 15 bps (0.15%), and the operation will normally also involve an overnight, back-to-back, cash neutral reverse repo GC trade executed at the Bank of England's Base Rate (currently 0.50%), where the counterparty will post other acceptable conventional gilts as collateral.

Haircut and Margining

Repo trades conducted under this Facility will be subject to the application of a 5% 'haircut', which will be confirmed with the GEMM at the point of trade. Margining will be conducted under the terms of existing Special Repo legal agreements between the DMO and GEMM counterparties.

Source of Gilts

In making gilts available to the market under this Facility, the DMO may create gilts, on a temporary basis, from the National Loans Fund (NLF), or it may borrow gilts from the Bank of England's portfolio of holdings acquired under its Asset Purchase Facility (APF).

Size limitations

The minimum amount of any request to borrow gilts under this Facility will be £5 million nominal. Normally, there will be no maximum on the amount of an individual request, although the total call on the Facility in any stock(s) by an individual counterparty may be limited at the DMO's discretion. Subject to bilateral agreement, larger individual trades may be booked in smaller shapes to facilitate delivery on return as there will be no scope to accept partial deliveries.

Timings

Requests to borrow or create gilts under this Facility must be made to DMO cash or gilt dealers by 11:30am on the day of settlement.

Other limitations

The Facility exists to support, but not substitute for, normal market activity. The DMO reserves the right to reject applications to borrow (or roll over a borrowing) where it judges that the counterparty has not taken adequate steps to cover its position in the market.

Announcements to the market

The DMO will announce on its wire services pages* and website the details (size and identity) of any gilts borrowed under this Facility, as soon as practicable after 11:30am on the day of the operation. The counterparty(ies) using the Facility shall remain anonymous, although the DMO reserves the right to share such information with other official regulatory bodies, including the Bank of England, where appropriate.

Returns

Gilts borrowed under this Facility should be returned to the DMO on the following business day. If any counterparty is unable or unlikely to meet this obligation, it may roll some or all of its original trade for a further week at the Special Repo rate (15 basis points), subject to the conditions and limitations outlined above.

Fails

Any counterparty failing to return gilts lent under the Facility for whatever reason, will be required to execute a reverse repo GC trade at the Bank Rate, with the agreed 'haircut', in order to neutralise the effect of the fail on the DMO's cash position. Where timing restrictions render this impossible (eg. After the GC close in CREST) the DMO may request a DBV substitute trade, which will also be subject to a 'haircut' of 5%. Counterparties will not be permitted to 'roll' the Facility as the result of a fail to the DMO.

Inclusion in gilt indices

None of the gilts created under this Facility shall be eligible for inclusion, temporary or otherwise, in the calculation of FTSE or iBoxx gilt indices.

Future revisions

The DMO reserves the right to further revise the terms and conditions of this Facility, in the light of changes in prevailing interest rates, market conditions and/or practices.

**UK Debt Management Office
6 August 2009**

* Relevant DMO wire services pages
Bloomberg - DMO17
Reuters - DMO/REPO01