

Treasury Bills

The Debt Management Office (DMO) expects Treasury Bills to represent a larger component of the UK Government's stock of marketable debt in the future. At the 2008 Budget it was announced that issuance would be increased by £5.8bn for the coming year. Due to their risk-free nature, there has been increased demand for Treasury Bills recently and the discount to where other similar maturity money market instruments has increased considerably.

At present the DMO issues, by auction, one month and three month Bills every week and six month Bills once a month. There is a possibility that they will extend the maturities to include one year. Tenders are submitted on a Friday with settlement on the next working day. For Capital Adequacy purposes Treasury Bills are an attractive proposition, carrying a 0% weighting.

It is difficult to buy Treasury Bills in the secondary market as there is strong demand for them among institutions. However it is not such a problem if stock needs to be sold to liquidate a position. At King & Shaxson we are regular participants in the weekly DMO tenders, so allowing our clients access to the primary market.

The formula for calculating the settlement proceeds of Treasury Bills is:

$$\text{Proceeds} = \frac{\text{Principal}}{\left(1 + \frac{\text{Yield} \times \text{No of Days to Maturity}}{36,500} \right)}$$

Settlement for Treasury Bills is effected using the "paperless" Crest system. We can provide custodian facilities should they be required.

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