

Dear Minister,

In January 2016, I was asked by Her Majesty's Treasury to lead an independent review into the future provision of gilt and Treasury bill reference prices, following an earlier decision for the UK Debt Management Office to withdraw from providing these prices. These prices are widely seen as a definitive measure of the value of gilts. The outstanding stock of gilts has a nominal value of around £1400 billion – roughly 75% of GDP. Reliably measuring the price and yield of these gilts is of real economic significance.

I was asked to:

- establish a process to identify and implement successor arrangements for the end-of-day reference prices;
- help to facilitate the selection and transition to the successor arrangements;
- provide advice on whether successor arrangements are required for intra-day prices; and
- ensure that the Review is brought to a successful conclusion while managing costs, risks and business issues as appropriate.

I began meeting with stakeholders in March 2016, including representatives of the Gilt-edged Market Makers; institutional investors; other end-users such as FTSE and CREST; and trade associations including the Investment Association and the Wholesale Markets Brokers' Association. I also met with several firms who had expressed an interest in providing successor arrangements.

From discussions with stakeholders, the Review noted at the outset that it was possible that if the DMO simply ceased producing reference prices then a single alternative source might emerge. However, whether or not that were to happen, it was likely that without some coordination there would be a period of uncertainty and disruption. The Review has seen its role as helping to guide the transition to successor arrangements, in the light of the views of all stakeholders, so as to reduce any disruption.

To give all interested parties an opportunity share their views with the Review, a public consultation was conducted from May to June 2016. On the basis of the feedback from the consultation, I did not see a need to specify successor arrangements to the intra-day prices.

In July 2016, the Review published a Request for Proposals which invited potential providers to submit proposals for successor arrangements for end of day reference prices. The document set out the criteria which would be used to evaluate them alongside the findings of the consultation exercise. Six proposals were received and the providers were invited to give detailed presentations to the Review team over the course of August 2016.

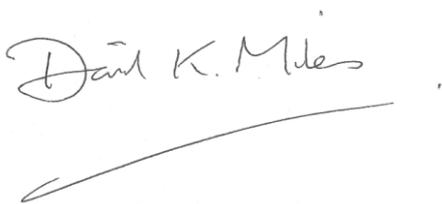
I am pleased to inform you that I have now completed the evaluation of these proposals and can present you with the findings of the Review. In my view, the joint proposal from FTSE Russell and Tradeweb was the strongest and its successful implementation is likely to provide reliable prices. The justification for this choice can be found in the attached Final Report.

The DMO has an important role to play in assisting with the transition to the successor arrangements and I have made some recommendations about this in my report. I expect that the transition could occur around spring 2017.

I have been particularly fortunate to have had David Mendes da Costa work with me while on secondment to this Review from the Financial Conduct Authority. This Review would not have been able to reach a conclusion within the timetable I set at the outset without his consistently excellent work and thoughtful advice.

I have also received great support from the Debt Management Office in conducting this Review. HM Treasury officials have been consistently effective and helpful.

I also thank the very many people from financial institutions who gave freely of their time to help inform the Review.



Professor David Miles
23 September 2016

Professor David Miles CBE
Professor of Economics

Imperial College Business School
Imperial College London
South Kensington Campus
London SW7 2AZ, United Kingdom

T: +44 (0)20 7594 1292
PA: +44 (0)20 7594 9113
E: d.miles@imperial.ac.uk
W: imperial.ac.uk/people/d.miles