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21 January 2015

PRESS NOTICE

FUTURE PROVISION OF GILT AND TREASURY BILL REFERENCE PRICES

The DMO is today announcing a strategic intention to withdraw in due course from the provision of daily end of day Gilt-edged Market Maker Association (GEMMA) and Treasury bill reference prices. As a first step towards withdrawing from the provision of these prices, the DMO is planning to engage with market participants, data providers, market infrastructure providers and other stakeholders in order to explore with them the markets' requirements for gilt and Treasury bill prices; to build stakeholder consensus around the conditions for the DMO ceasing to provide reference prices; and to help to identify potential alternative ways that requirements can be met on a commercial basis. The DMO will continue to provide reference prices during the engagement and transition processes.

Background

The DMO recognises the benefits that the market derives from the provision of end of day prices, but it is normal in other government debt markets for such information to be provided by one or more independent sources rather than by the debt manager. In the UK, the development of commercial gilt and Treasury bill pricing services may have been constrained by the DMO's free provision of such prices.

There have been a variety of recent developments which means that the DMO no longer believes that it is feasible for it to continue in the provision of reference prices, in particular: changing regulatory requirements which could lead to additional costs and obligations on the DMO to comply with the relevant standards; the potential for a perceived conflict of interest in the DMO becoming an official administrator (in order to comply with administration best practice) whilst issuing and trading bonds and setting obligations for the Gilt-edged Market Makers (GEMMs); and the contributing GEMMs' situation relating to the changing obligations and potential conflict of interest that they face as contributors of prices. In light of these changing circumstances, the DMO has concluded that it should take action to withdraw from the provision of reference prices.

Next steps

Whilst the DMO does not believe that it would be appropriate for it to impose a new arrangement on the market, it recognises the importance of taking an active role in supporting stakeholders with the development of one (or more) alternative ways to meet any requirements. It plans to fulfil this by initiating an engagement process with key stakeholders. This will ensure that stakeholders are actively involved in finding an appropriate solution for their needs, can readily identify and potentially work with other interested parties and will help to inform the lead time required for the transition away from DMO provision of prices.

The DMO intends to start the market engagement process in February 2015 and will be meeting with key user groups, including GEMMs, Treasury bill primary participants, market infrastructure providers, end-investors and potential new price providers. Whilst the DMO has already identified several key stakeholders, with which it anticipates holding discussions, it would also welcome indications of interest from other stakeholders who wish to be kept informed as well as direct approaches for active involvement: if you would like to discuss this issue with the DMO or be kept informed of developments please contact RefPrices@dmo.gsi.gov.uk. Once the DMO has held the initial round of meetings with stakeholders it will communicate next steps.

NOTES TO EDITORS

The DMO currently publishes reference prices in all gilts formally on behalf of the Gilt-edged Market Makers Association (GEMMA). GEMMA reference prices were introduced in July 1996 and were published by the Bank of England until April 1998, when the responsibility transferred to the UK Debt Management Office. The DMO requires all GEMMs to contribute closing reference prices in all liquid gilts. Every evening the DMO uses these contributions to produce end of day reference prices and associated redemption yields for each gilt. It also derives and publishes prices for the less liquid gilts (including strips) on behalf of GEMMA.

The DMO has been publishing reference prices for Treasury bills since September 2003 and these are intended to provide indicative prices for the purpose of CREST valuation of collateral transfers. These prices are calculated by the DMO from prevailing GC repo rates adjusted by a spread which reflects the results from recent Treasury bill tenders.

The gilt and Treasury bill reference prices, including those derived by the DMO, are published to the DMO's wire services pages, on the DMO's website, and transmitted directly to various stakeholders.

This press notice will be appearing on the DMO's website at: www.dmo.gov.uk