

RECORD OF QUARTERLY MEETINGS WITH GILTS MARKET PARTICIPANTS AHEAD OF THE JULY-SEPTEMBER 2005 GILT ISSUANCE ANNOUNCEMENT

The UK Debt Management Office (DMO) held meetings with the Gilt-edged Market Makers (GEMMs) and with representatives of gilt investors on 20 June 2005. The meetings were primarily intended to inform the choice of gilts to be issued in the next quarter, but the optimal time to begin issuing conventional benchmark gilts was also discussed.

Six gilt auctions are scheduled in July-September 2005: four conventional auctions on 14 July, 2 August and 6 and 27 September and two index-linked auctions on 26 July and 22 September. **The issuance calendar for July-September will be announced by the DMO at 3.30pm on Thursday 30 June 2005.** In discussion, the following main points emerged:

All GEMMs: There was general agreement that 5- and 10-year gilts should not be launched too early, and that they should be built up over a period of 6-9 months before they become true benchmarks – although some mentioned a period of three months as preferable, in particular for 5-year benchmarks. It was noted though that the timing depended on the frequency and size of auctions.

All favoured two long auctions in the quarter, with a reopening of 4¼% 2055 the most popular choice for 14 July – although there were a few suggestions for a new 2030 or a reopening of 4¼% 2036 (particularly from those who recommended the launch of an ultra-long index-linked gilt in July). Views were divided over the date (in September) for the second long with maturities of 2023, 2030, 2032, 2036, 2040 2045 and 2055 all mentioned. A short gilt was the favoured option for the auction on 2 August with a new 2011 mentioned by a majority although reopenings of 4% 2009 or 4¾% 2010 were also proposed and some recommended a reopening of a medium gilt. 4¾% 2020 was generally seen as the obvious candidate for medium issuance along with isolated calls for 4¾% 2015, 8% 2015 or a new 2016.

IG GEMMs: While there was virtual unanimity among IG GEMMs about the issuance of an ultra-long index-linked gilt in July - September 2005, views were divided between those who wanted a new 50-year launched in July and the majority who preferred to wait for September to allow the 2055 conventional to be built up first. Those recommending the launch of a new 50-year in September suggested a re-opening of a variety of gilts for July - the 2013, 2016 2020 and 2024 maturities.

End investors

Conventional: There was a general acceptance that 5- and 10-year gilts should be launched approximately 6-9 months before they become true benchmarks. There was virtual unanimity that the 14 July auction should be a reopening of 4¼% 2055 – and that there should be two long conventional auctions in Q2 2005-06. There were some recommendations for two reopenings of the 2055 conventional, but others felt that this would not be advisable if a new 50-year index-linked gilt was to be issued in the same quarter. Other suggestions for the second long auction included a new 2023 gilt, a reopening of 4¼% 2036 or a new 2040 or 2045 gilt. Views were divided as to whether the second long auction should be on 6 or 27 September. Most recommended a short auction on 2 August, with a new 2011 gilt often mentioned although some recommended a medium auction with a reopening of 4¾% 2020 – which was seen as the obvious choice for medium issuance.

Index-linked: Virtually all recommended the issuance of a new 50-year index-linked gilt in September, although there were some calls for a 40-year. Most thought the 2055 conventional should be built up first in July and that issuing two ultra-long gilts in July might offer too much risk to the market. Those taking this approach recommended that a 50-year index linked gilt be issued in September and suggested a variety of gilts for the July auction - with the 2020 most often mentioned – although the 2016 and 2035 maturities were also suggested.

Next quarterly consultation meetings: Monday 26 September 2005: 4.00pm (Investors) and 5.00pm (GEMMs and IG GEMMs).