

## **PRESS NOTICE**

### **DMO RESPONSE TO CONSULTATION ON INDEX-LINKED GILT RE-DESIGN**

The United Kingdom Debt Management Office (“DMO”) has today published its response following its consultation on whether to adopt a new design for new issues of index-linked gilts. The DMO has decided not to introduce a new design of index-linked gilt in respect of the main issue of whether to move from the current eight-month indexation lag to a three-month one.

The DMO is grateful for the responses to the consultation. A variety of views were received; there was more support for re-design than previously, but no overall consensus on the way forward and also differences of view as to the next steps if a new design were introduced. Taking account of these responses and the balance of cost, benefit and risk, the DMO has decided to retain the current design for future new index-linked issues, albeit with three changes.

The first is a change to the prospectus indexation clause that deals with significant changes in the coverage or the calculation of the Retail Prices Index (RPI). Instead of being couched in terms of an early redemption of stock, the clause that the DMO intends to use for new index-linked gilts places the onus on an independent institution to propose a satisfactory replacement index should the RPI cease to exist.

The second change is that the DMO plans to take over the role, from the Bank of England, of fixing the coupon and redemption payments for new index-linked gilts (the Bank of England will retain this function for the existing index-linked gilts).

The final change that the DMO intends to introduce for new issues is to increase the precision of the coupon and redemption payment calculations. Whereas the cash flows for current index-linked gilts are rounded down to either 2 or 4 decimal places per £100 nominal, for new bonds these will be calculated by nearest rounding to 6 decimal places per £100 nominal.

The DMO intends to adhere to the timetable set out in the original consultation paper. As such, the DMO would not envisage launching a new index-linked gilt before the third quarter of 2002. The decision on whether to issue a new bond in July to September 2002 is due to be discussed in June 2002 at the DMO's regular consultation meetings with the Gilt-edged Market Makers and representatives of end-investors.

## **NOTE TO EDITORS**

On 7 September 2001 the DMO published a market consultation paper on index-linked gilt re-design. This paper sought views on whether a new design should be introduced for future new issues of index-linked gilts. The main re-design issue was whether to move from the current eight-month indexation lag (eight months being the delay between when inflation occurs and when it impacts an index-linked gilt's cash flows) to a three-month lag. The consultation period ended on 31 October.

The DMO is today sending copies of the response document to consultation respondents, as well as other interested parties. In addition, the DMO has today published an updated version of its gilt price/yield paper 'Formulae for Calculating Gilt prices from Yields', originally published in June 1998. This press notice together with the response document and an updated copy of the DMO's price/yield paper will be appearing on the DMO's web site at: [www.dmo.gov.uk](http://www.dmo.gov.uk). Copies are also available from Sarah Ellis at the DMO on 020 7862 6525.