

15/05

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PRESS NOTICE

DMO RESPONSE TO THE CONSULTATION ON ULTRA-LONG GILTS

The DMO has today published its response to the consultation exercise launched on 2 December 2004 on the issuance of ultra-long (circa 50-year) gilts. On the basis of the feedback received the DMO has recommended, and HM Treasury Ministers have agreed, that:

- From 2005-06, the DMO may issue conventional and index-linked gilts with maturities of up to approximately 50-years;
- Ultra-long conventional gilts may be issued from the first quarter of 2005-06 but new three-month lag index-linked gilts will not be issued before the second quarter;
- Decisions on specific maturities for the total issuance in any one quarter will be announced at the end of the preceding quarter, in the regular quarterly announcement on gilt issuance plans;
- The DMO will not issue conventional or index-linked annuity type gilts in 2005-06 or in the near future.

The outcome of the consultation suggests that there is significant and probably sustainable demand for ultra-long gilts, in both conventional and index-linked formats, and that this demand is not sufficiently met by current supply. The DMO believes that it may be able successfully to satisfy some of that demand

through the issuance of ultra-long gilts that have a duration above currently existing bonds, and that it is likely to be able to capture a premium in doing so.

Many of those respondents who recommended ultra-long index-linked gilts as their preferred new instrument also advised that conventional gilts of similar maturities should be issued first. A number of reasons were cited for this, including difficulties of pricing an ultra-long index-linked gilt in the absence of a nominal curve at ultra-long maturities.

Another type of instrument upon which the DMO consulted was fixed-term annuity gilts. Only a handful of respondents explicitly recommended annuities, with widespread concerns being expressed by most respondents about the potential illiquidity of such instruments. It was also said that annuities would most likely be of interest to particular individual investors rather than of more widespread interest.

Notes to editors

On 2 December 2004 the DMO published a consultation document on the issuance of ultra-long (circa 50-year) gilts (in conventional, index-linked or annuity formats). The deadline for responses was 21 January 2005.

The UK Government has previously issued a number of gilts with maturities of 50 years or more, see-below:

- 4% Funding 1960-90, issued on 14 July 1919 (maturity 53.3 years);
- 3% Redemption 1986-96, issued on 17 August 1937 (maturity 51.2 years);
- 5½% Funding 2008-12, issued on 5 October 1960 (maturity 52.0 years).

The DMO received 53 responses to the consultation including all the Gilt-edged Market Makers (GEMMs) as well as a number of asset managers, trustees, trade associations, management consultants, academics and others. A full list of respondents appears at Annex A of the consultation response document. The response document is available on the DMO website at: www.dmo.gov.uk/gilts/public/consdoc/cons160305.pdf

The DMO is also publishing today a third edition of its paper “Formulae for calculating gilt prices from yields”, to reflect the introduction of index-linked gilts with a three-month indexation lag; this is available on the DMO website at www.dmo.gov.uk/gilts/public/technical/yldeqns.pdf