



# A Private Investor's Guide to Gilts

*United Kingdom*  
**Debt**  
**Management**  
**Office**

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## Disclaimer

*This booklet is intended to help those who may have an interest in investing in gilts. It covers the main features of buying, selling and holding gilts. The booklet does not constitute a recommendation to buy, sell or hold gilts, nor does it offer investment advice.*

*The United Kingdom Debt Management Office (DMO) has tried to ensure that the legal and factual information is accurate. Except where specifically indicated, the booklet describes the position as at 30 November 2004. The reader should not assume that anything described in it is still accurate at a later date.*

*This booklet cannot be a comprehensive statement of the intricacies of law and practice relating to gilts, nor can it take account of the circumstances of every investor. Therefore, reliance should not be placed on the booklet: investors who want advice on which gilt or other investment may be best suited to them, or on trading strategies, should consult a professional adviser.*

*As gilts are marketable securities, their market value may go down as well as up. The DMO issues gilts to the market on behalf of the Government of the United Kingdom, and holds gilts itself for market management purposes.*

*The DMO does not in any way guarantee the liabilities of the commercial institutions referred to in this booklet.*

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## What are gilts?

**Gilts are marketable securities** issued by Her Majesty's Government through the UK Debt Management Office (DMO) – an Executive Agency of HM Treasury. Gilts are issued to finance the Central Government Net Cash Requirements and to refinance maturing debt.

The name 'Gilts' is short for 'Gilt-edged stock'. The market has given this name to British Government securities because of their reputation as one of the safest investments.

Gilts cannot be cashed in before their official maturity date. **However, an investor can always sell them in the market (section 3.1) or via the DMO Gilt Purchase and Sale Service (section 3.4).** This service is offered on an execution only basis. Individuals should ensure that it meets their own requirements. If you are unsure of what action to take you should seek financial advice.

Dealers are prepared to buy and sell most gilts at any time. Prices may change from day to day, and it is important to remember that you may not be able to sell your gilts for the same price as you bought them.

There are many different kinds of gilt (see Appendix A for a full list). Some have only a few years to run; others will continue to pay interest for over 30 years. Some are 'index-linked', meaning that the interest and capital payments are adjusted for inflation as measured by the Retail Prices Index (RPI) (section 1.2).

Others are 'strippable' which means that the individual interest and redemption payments may be separately bought and sold in the market (section 1.3).

This booklet explains the main kinds of gilts available, how to buy and sell them, and other issues that may be of interest to the potential investor.

This is the fourth edition of this publication and the first to be published since Computershare Investor Services PLC ('Computershare') succeeded the Bank of England as Gilts Registrar.

### 1.1 Conventional gilts

Conventional gilts are the simplest form of UK Government bond and represent the largest part of the gilt portfolio (75% at 30 November 2004). A conventional gilt represents a guarantee by the Government to pay the holder a fixed cash interest payment (half of the coupon) every six<sup>1</sup> months until the bond matures. On maturity the holder receives the final coupon payment and the nominal capital amount invested.

A conventional gilt is denoted by its annual coupon rate and maturity (e.g. 5% Treasury Stock 2014). The coupon rate usually reflects the market interest rate at the time of first issue of the gilt. As a result, there is a wide range of coupon rates available – reflecting how rates of borrowing have varied in the past.

#### *Information on a gilt certificate*

A lot of the key information relating to an

<sup>1</sup> Three 'rump' gilts pay coupons quarterly (see Appendix A).

## What are gilts?



investment in gilts is available on the certificate you will be sent after purchase (pictured). Suppose you have a holding of £1,000 nominal of 5% Treasury Stock 2014. What does that mean?

### • Nominal amount

£1,000 nominal is the face value amount of the gilt you hold. It is not necessarily how much it is worth now, or how much it would cost you to buy now. A £1,000 nominal holding of that gilt may be worth more or less than £1,000 in the market. But when this gilt finally matures, on 7 September 2014, £1,000 is the capital repayment that the holder will receive at that time.

There is no particular significance about the £1,000 used in the example above. You can hold larger or smaller amounts, £100, or £100,000, if you choose. Gilts are actually transferable in multiples of a penny. However, if you buy gilts at a DMO auction (section 3.3), £1,000 (nominal) is the minimum amount you may apply for.

### • The coupon

5% is the 'coupon', or the annual rate of interest that is applied to the nominal value of the holding to determine the size of your interest payment, or 'dividend', each year. In most cases dividends on gilts are paid six-monthly so the investor will receive half of the dividend twice a year; in this example, £25.00 gross of tax on both 7 March and 7 September.

### • The name

'Treasury Stock' is the name given to the gilt when it was first issued. Gilts have a variety of names – Treasury Stock, Exchequer Stock, Conversion Stock, War Loan and Consolidated Stock. The names have no significance as far as the underlying obligation to repay is concerned. All new gilts issued in recent years have been named 'Treasury Stock'.

### • Maturity Year

2014 is the 'maturity' year i.e. the year in which the holder at that time will receive the capital repayment (£1,000 in the example above). The gilt cannot be cashed

## What are gilts?

in before September 2014, although it can be sold in the market at any stage during its life. At any time, the value in the market may be higher or lower than £1,000 depending on how attractive the 5% coupon is relative to other prevailing interest rates (see page 12).

Market convention is to divide gilts into the following maturity categories:

- **Shorts:** 1-7 years
- **Mediums:** 7-15 years
- **Longs:** Over 15 years

### *Double-dated conventional gilts*

In the past the UK Government has issued gilts which have two repayment dates in the title, e.g. '7½% Treasury Stock 2012–2015'. This means that the Government can choose to repay the gilt at any time from 2012 onwards with three months' notice, but must repay the gilt by 2015 at the latest. It is important to remember that the choice of redemption date is the Government's, not the investor's. There are currently only three double-dated gilts still remaining.

### *Undated gilts*

Undated gilts (which have no fixed redemption date) are the oldest in the portfolio – some date back to the 19th century. The redemption of these bonds is at the discretion of the Government, but because of their age they all have low coupons and so there is little current incentive for the Government to redeem them.

## 1.2 Index-linked gilts

These are gilts on which both the interest payments and the capital repayment on redemption are adjusted in line with inflation, as measured by the Retail Prices Index (or RPI), which is published by National Statistics.

Whereas for conventional gilts an assumption about expected inflation over the life of the gilt is effectively or implicitly included in the fixed annual coupon rate, index-linked gilts remove the risk of actual inflation turning out to be different from the expectation by applying an updated inflation adjustment factor as each cash flow (twice a year) is paid. Index-linked coupons and yields tend to look much lower than on conventional gilts. However, this is because their coupons and yields are the values *in addition* to inflation (not including inflation, as with coupons and yields for conventional gilts).

Inflation adjusted cash flows from index-linked gilts are determined by a 'Base RPI' – this is the level of the RPI eight months before the gilt was first issued<sup>2</sup>. The inflation adjustment is made by calculating the ratio of the RPI level eight months before a cash flow is due, to the Base RPI for the gilt in question. The coupon rate (or 100 for the capital repayment) is then multiplied by this ratio. The eight-month lag ensures that the cash value of the next interest payment is always known with certainty at any time.

<sup>2</sup> A list of Base RPIs for each index-linked gilt is available at [www.dmo.gov.uk/gilts/indexlink/uk/igtable.htm](http://www.dmo.gov.uk/gilts/indexlink/uk/igtable.htm)

## What are gilts?

### *Index-linked gilt arithmetic*

Take an example. 4½% Index-linked Treasury Stock 2030 was first issued on 12 June 1992. Interest is paid on 22 January and 22 July each year. The gilt will be redeemed on 22 July 2030, at which time the final interest payment will also be made.

The base month for the Retail Prices Index for the gilt is October 1991, i.e. the month eight months before the gilt's issue in June 1992. The RPI in October 1991 was 135.1. Each semi-annual interest payment (except the first, which related to a period of more than six months) comprises £2.0625 (half the 4½% annual coupon) adjusted for the movement in the RPI, as per the following formula:

Amount of interest per £100 nominal of stock = half the annual coupon x RPI eight months before the dividend is due/Base RPI.

Therefore for the interest payment made on 22 January 2001 for this index-linked gilt, the amount paid was

$$\text{£2.0625} \times \frac{170.7}{135.1} = \text{£2.6059863064... per £100 nominal of stock}$$

(170.7 was the level of the RPI in May 2000).

This was then rounded down to £2.6059 per £100 nominal in accordance with this index-linked gilt's prospectus.

The actual principal repayment on redemption (also called the 'uplifted redemption value') depends on the level of the RPI eight months before the repayment date of the gilt and is calculated in the following way:

Uplifted redemption value per £100 nominal of stock = 100 x RPI eight months before the repayment date / Base RPI.

We do not, of course, know yet what the RPI will be in November 2029 (eight months before the repayment date of 4½% Index-linked Treasury Stock 2030). Suppose that the latest RPI figure available is that for December 2000 (172.2). In order to produce an estimate for the value of the November 2029 RPI it is necessary to make an assumption about RPI inflation over the period from December 2000 to November 2029 (a period of 28 years and 11 months). If we suppose that RPI inflation over this period averages 3% per annum, then this would give an estimate for the RPI for November 2029 of:

$$= 172.2 \times ((1.03)^{28\frac{11}{12}}) = 172.2 \times ((1.03)^{28.916...}) = 172.2 \times 2.35076.... = 404.80222.,$$

which would be published as 404.8.

Making this assumption about future RPI inflation, the sum repaid to investors in this index-linked gilt in July 2030 would then be estimated as:

$$\text{£100} \times \frac{404.8}{135.1} = \text{£299.6299.... per £100 nominal of the gilt.}$$

A list of recent index-linked payments appears in Appendix B.

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It should be noted that, since the RPI can go down as well as up, cash flows on index-linked gilts may also fall. For example, cash flows paid in April and October 2002 for 2½% Index-linked Treasury Stock 2020 would have used the RPI values for August 2001 (174.0) and February 2002 (173.8) respectively to fix the cash flows. Hence, although the RPI increased from April to October 2002, it decreased from August 2001 to February 2002 and the interest payment rate was adjusted downwards accordingly (from £2.6215 to £2.6185 per £100 nominal). In the event that the RPI which fixes the redemption payment is less than the Base RPI for an index-linked gilt (implying negative inflation over the life of the gilt), then the final redemption payment would be less than £100 per £100 nominal (i.e. there is no 'deflation floor').

The DMO website includes a table with monthly RPI data going back to 1980 (this can be found at [www.dmo.gov.uk/gilts/indexlink/uk/rpiseries.htm](http://www.dmo.gov.uk/gilts/indexlink/uk/rpiseries.htm)).

The UK Government has no current plans to issue new index-linked gilts linked to the UK Harmonised Index of Consumer Prices (now referred to as the Consumer Price Index (CPI)) despite this measure of inflation being substituted for RPIX for inflation targeting purposes. This is kept under review, but the DMO would consult with the market were it at any time to consider a move to a substitute index for new index-linked gilts. The RPI will continue to be published and payments for existing index-linked gilts will continue to be linked to the RPI.

Index-linked gilts may be particularly attractive to UK taxpayers since, under current legislation, the gain arising from the inflation uplift on the principal (or capital) value is generally not taxed in the hands of UK private investors. Such investments will, however, be taxable on the full amount of interest received, including any inflation uplift.

### 1.3 Gilt strips

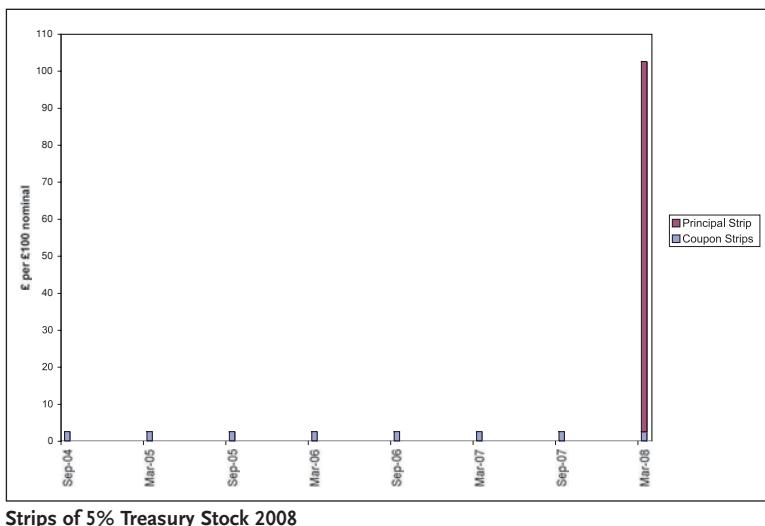
Stripping a gilt is the process of separating a standard interest-bearing gilt into its individual interest (or coupon) and redemption (or principal) payments which can then be separately held and traded in their own right as non-interest bearing (or zero-coupon) bonds.

For example, in June 2004 a holding of 5% Treasury Stock 2008 could be divided into nine strips; one for the principal repayment or strip on 7 March 2008 and eight coupon strips for the half yearly interest payments running from 7 September 2004 through to 7 March 2008.

Strips are referred to as 'zero-coupon' instruments because they do not pay interest on the maturity date of the strip; the holder simply receives a payment for the strip's nominal value. They therefore trade at a discount to face value prior to maturity.

An official strips facility was introduced in December 1997 and until 2002, all strippable gilts had coupon dates of 7 June and 7 December. From 2 April 2002, a second series, with coupon dates of 7

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March and 7 September, was opened. Not all gilts, however, are eligible to be stripped. Those gilts that may be stripped are identified in Appendix A. The range of strippable gilts may be extended by the DMO.

At 30 November 2004 there were 17 strippable gilts in issue in the two series, with a total of £207.6 billion (nominal) in issue, of which 1.1% was held in stripped form.

In order to hold strips directly an investor must be a member of CREST and the process of stripping will need to be undertaken through a GEMM<sup>3</sup>. Investors

who hold gilt strips on 5 April in any year of assessment will be treated as having transferred and reacquired the strip at the market value on 5 and 6 April of the relevant year respectively, and may be taxed on any increase in that value over the previous year. The prices of gilt strips may behave differently to other gilts. Potential investors may wish to seek professional advice before buying strips. Further information on gilt strips may be obtained from the DMO website.

Please note: *If you are not a member of CREST and you wish to hold a strip you should consult your stockbroker or financial adviser.*

<sup>3</sup> A Gilt-edged Market-Maker (see section 3.1 and Appendix E).

## Gilt prices and yields

Gilts are actively traded securities and the price of a gilt can change continually whilst the capital markets are trading. The title of a gilt does not tell you its value in the market; neither does it tell you how much you would have to pay to buy it or how much you would receive if you sold it (rather than waiting for repayment at maturity).

The easiest way to find out the price of a gilt is to look in the financial pages of the newspapers or on the gilts prices pages of the DMO website at [www.dmo.gov.uk/gilts/f2gilts.htm](http://www.dmo.gov.uk/gilts/f2gilts.htm) where close of business reference prices and redemption yields for the previous day for all gilts are published.

### • Gilt prices in newspapers

If you are looking for price information in newspapers you will find prices for most gilts with the share price lists, usually under the heading 'UK Gilts' or 'Government Securities'. The example here is taken from the Financial Times of 30 November 2004.

In addition, the Financial Times publishes a full list of gilt prices each day at [www.ft.com/gilts](http://www.ft.com/gilts) Gilt prices shown in newspapers are usually the closing middle-market prices, i.e. halfway between the indicative buying and selling price. As noted above gilt prices can fluctuate continuously and the price may well have changed by the time you look in the newspaper on the following morning. A broker can give you up-to-date prices for buying and selling.

Newspapers often show the price change relative to the previous day (or the previous month) per £100 nominal of the gilt. In addition, a high/low price indicates the movement of the gilt's price over the previous year. The price published by newspapers is the clean price, i.e. it does not include accrued interest (section 3.1).

### • Price information on the DMO website

Closing prices and redemption yields for all gilts and gilt strips are published on the DMO website on every business day at [www.dmo.gov.uk/gilts/f2gilts.htm](http://www.dmo.gov.uk/gilts/f2gilts.htm) The following example is taken from the DMO website for 30 November 2004 and shows close of business data for 5% Treasury Stock 2014. The first three fields are all means of identifying the gilt. The first is the DMO's internal identifier code and the second a shortened form of the gilt's name. The third field is the ISIN number (the International Security Identification Number – an identifier number used by the London Stock Exchange). The next three fields give price and yield information.

UK GILTS - cash market										
		Price £	Red Yield	Red Day	Change in Yield	Change in Price	52 week High	52 week Low	Amount £m	
Nov 29										
7 1/2% 2014	100.1664	4.38	.01	-14	+.01	+0.01	102.96	100.00	104.00	10.486
7 1/2% 2015	100.0624	4.43	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2016	100.0624	4.44	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2017	100.0624	4.46	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2018	100.0624	4.49	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2019	100.0624	4.51	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2020	100.0624	4.53	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2021	100.0624	4.55	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2022	100.0624	4.56	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2023	100.0624	4.58	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2024	100.0624	4.59	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2025	100.0624	4.60	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2026	100.0624	4.62	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2027	100.0624	4.63	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2028	100.0624	4.65	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2029	100.0624	4.66	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2030	100.0624	4.67	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2031	100.0624	4.68	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2032	100.0624	4.69	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2033	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2034	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2035	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2036	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2037	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2038	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2039	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2040	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2041	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2042	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2043	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2044	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2045	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2046	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2047	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2048	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2049	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2050	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2051	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2052	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2053	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2054	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2055	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2056	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2057	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2058	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2059	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2060	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2061	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2062	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2063	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2064	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2065	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2066	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2067	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2068	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2069	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2070	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2071	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2072	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2073	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2074	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2075	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2076	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2077	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2078	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2079	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2080	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2081	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2082	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2083	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2084	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2085	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2086	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2087	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2088	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2089	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2090	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2091	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2092	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2093	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2094	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2095	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2096	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2097	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2098	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2099	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2100	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2101	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2102	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2103	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2104	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2105	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2106	100.0624	4.70	.01	-15	+.01	+0.01	102.54	100.50	105.50	11.100
7 1/2% 2107</td										

## Gilt prices and yields

STY14 5 Treasury 2014	GB0031829509	103.170000	104.344033	4.592604
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The two prices shown of £103.17 and £104.344033 are known as the 'clean' and 'dirty' price respectively. Clean prices do not include accrued interest whereas dirty prices do (see the section on accrued interest on page 15). The clean price is typically the price, which is quoted when agreeing a purchasing or selling price. However, the actual amount of money which will change hands is based on the dirty price and will reflect settlement on the business day after the transaction (T+1)<sup>4</sup>.

So, on the basis of the reference price on 30 November 2004, every £1,000 nominal of 5% Treasury Stock 2014 was worth £1,043.44.

### • Sale and purchase prices

It is worth noting that the price you will actually pay (if you are buying) or receive (if you are selling) will probably be different to the mid-prices described above. This is because:

- prices move all the time, and the DMO website and newspapers quote close of business prices from the previous day.
- in the market, dealers will offer to sell gilts at a higher price than they are ready to pay for it. The difference between their buying and selling prices is known as the 'spread', and is a dealer's charge for conducting the transaction. There may, however, be other charges which are not based on

the price of the gilt (see below). The price shown in the newspapers is in the middle of the spread. If you are a buyer you will pay a little more; if a seller you will receive a little less.

- The price you actually pay will include some allowance for accrued or rebate interest (see pages 15-16).
- Investors will also pay commission to a broker or bank for the arrangement of the purchase or sale.

The gilt prices that appear on the DMO website and newspapers assume next day settlement. This means that someone who purchases a gilt today will be expected to pay for it on the following business day. This is the standard convention in the gilts market for wholesale investors (e.g. insurance companies). However, trades conducted for retail customers may not settle on a T+1 basis. For instance, the DMO's Gilt Retail Purchase and Sale Service will use a T+3 settlement convention.

### *What causes gilt prices to change?*

As noted above, gilt prices do fluctuate. Why should this be the case when gilts are regarded as free of any default risk?

Gilt prices do not change like company shares do, where people change their views about the earning power or creditworthiness of the borrower. With gilts, the coupon is fixed and it is widely assumed that the UK Government will

<sup>4</sup> Settlement convention

## Gilt prices and yields

not default on its obligations to pay the coupons through the life of the gilt or the capital amount on redemption.

Prices change because people change their views about interest rate prospects. A coupon fixed at 6% may look unattractive when market interest rates are at 8%; and it may look generous when market interest rates are at 4%. Prices in the gilts market will adjust to reflect that. This is why, for example, the clean price of 5% Treasury Stock 2014 at the close of business on 30 November 2004 was £103.17 (i.e. above £100.00) - with market interest rates (for that maturity) at that time of around 4.60%, the coupon (of 5.0%) looked slightly generous and the price of the gilt per £100 nominal had risen above par (£100.00) to reflect that. Equally, the price of 3½% War Loan, with a coupon (3½%) below current market interest rates, closed at £78.17, well below par.

However, it is not just the comparison with today's interest rates that matters. The prices will also reflect the market's collective view of what will happen to interest rates over future years. The price of a gilt with many years to run will reflect both the coupon, and the collective view of the market on how attractive that fixed coupon rate is likely to be over the remaining years of the gilt's life. That in turn will be affected by the view that people take about both the level and the uncertainty of inflation in the future. Prices will of course behave differently where the interest and capital payment is protected against changes in inflation, as measured by the RPI. Index-linked gilts are described earlier in section 1.2.

Other issues, such as the levels of outright supply and the strength and nature of demand from investors, can also affect gilt prices.

### 2.2 Gilt yields

Some of the most important information about gilts is given in the second column of the newspaper table and the final column of the DMO website table (opposite) – *'the gross redemption yield'*. This figure gives an indication of the actual return which the investor will receive from buying the gilt at the price shown and holding it to maturity.

The redemption yield is different from the coupon. The coupon is the fixed interest rate paid on the nominal amount of the gilt – in the case of 5% Treasury Stock 2014, £5.00 on each £100 (paid in two equal amounts of £2.50). In the example above, to receive the 5% annual interest and the £100 capital repayment on redemption, you would have had to pay a clean price of £103.17 (per £100 nominal) on 30 November. The yield will change as prices change because the cash flows from the gilt are fixed. As prices rise you are effectively paying more for a series of fixed cash flows so the yield falls, and if prices fall the yield rises.

The redemption yield reflects the net present value of the future flow of interest and includes the effect of the capital gain or loss from holding the gilt until maturity, at a given price. This is the standard measure used in bond markets for assessing the rate of return on an investment. For example, if you buy a

## Gilt prices and yields

5TY14 5 Treasury 2014	GB0031829509	103.170000	104.344033	4.592604
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high coupon gilt which pays interest well above current interest rates (e.g. 9% Conversion Loan 2011) you would have paid some £125 per £100 nominal on 30 November and, assuming you held to redemption, you would make a capital loss of £25 per £100 nominal on the investment. Offsetting this loss, however, is the fact that you would be receiving above (current) market related interest payments. The redemption yield calculation also assumes that the investor reinvests the interest payments received by buying more of the gilt at the same redemption yield.

For index-linked gilts, ‘real’ gross redemption yields are calculated. Unlike the ‘nominal’ gross redemption yields

which are calculated for conventional gilts, real yields do not include an allowance for inflation. Hence yields for index-linked gilts tend to look lower than for conventional gilts. For example, in the example above, the 4.71% yield *includes* an allowance for RPI inflation. However, for an index-linked gilt the ‘real’ yield shown would be the yield which would be *added* to actual future RPI inflation. The yield shown on the DMO website for 30 November for 2½% Index-linked Treasury Stock 2013, for example, was 1.81%.

Formulae for calculating redemption yields, appear on the DMO website at [www.dmo.gov.uk/gilts/public/technical/yldeqns\\_v2.pdf](http://www.dmo.gov.uk/gilts/public/technical/yldeqns_v2.pdf)

# Buying and selling gilts

## 3.1 Buying and selling gilts in the market

Gilts are traded in a very active market centred on a group of firms known as 'Gilt-edged Market Makers' (GEMMs). A list of GEMMs appears in Appendix E. The GEMMs deal continuously with major professional investors like pension funds and insurance companies, across the entire range of gilts. GEMMs, along with institutional investors and custodians who may hold stock on behalf of private investors, hold gilts in computerised form using the CREST settlement system<sup>5</sup>. Some of the GEMMs make special provision for deals in small amounts.

If a private investor wishes to purchase gilts other than via the DMO at outright gilt auctions, the secondary market can be accessed through a stockbroker or bank or the DMO's Retail Purchase and Sales Service (section 3.4). A member of the public who wishes to use a stockbroker or bank will need to have opened an account with the broker or bank before they can buy or sell gilts.

### *Stockbrokers and banks*

Stockbrokers are members of the London Stock Exchange, and a list may be obtained by writing to the London Stock Exchange, 10 Paternoster Square London EC4M 7LS or by accessing its website [www.londonstockexchange.com](http://www.londonstockexchange.com). Several

of the high street banks also offer stockbroking services to their banking customers, or will put them in contact with their own stockbroking arm. It is worth remembering that a broker charges commission for buying and selling gilts. The services the broker provides are to seek out the best price available for you, the client, and to organise the paperwork. Many brokers will offer advice on which gilt is best suited to the client's particular circumstances. An example of the dealing process is given below.

### *How to buy through a stockbroker*

A client telephones their stockbroker or bank and asks them to buy £1,000 nominal of 5% Treasury Stock 2014 in the market. The broker obtains the best price, and if acceptable to the client, deals at that price. At this stage this is an oral contract between all parties. The broker will then send the client a contract note setting out the amount bought, the price, and any adjustments (e.g. for accrued or rebate interest – see pages 15-16). It will also include the broker's commission. If the broker does not already hold funds for the client, he/she will want a cheque for the balance immediately.

A GEMM, who may be the seller of the gilt, will then debit the £1,000 nominal of the 5% Treasury Stock 2014 from their CREST account in order to rematerialise the gilt into the client's own name. The GEMM will do this by sending a 'stock

<sup>5</sup> The CREST system is a computerised system for settlement, registration and transfer of dematerialised securities including UK and Irish corporate securities, UK government securities and international securities. Holdings and transfers are made under the Uncertificated Securities Regulations 1995 which permit transfers without the need for an instrument in writing or the issuance of certificates. Sponsored membership of CREST for personal investors is available through commercial stockbrokers. Sponsored members do not receive stock certificates.

## Buying and selling gilts

withdrawal' instruction to CREST comprising of the withdrawal details and the details of the client's name and address in which the certificate is to be produced. An electronic instruction will then automatically be sent to Computershare in order to complete the registration process. Once the client's holding is registered with Computershare, dividends will be sent direct to the client's bank or building society account or by cheque to the client if preferred. If no instructions are received to the contrary, payment will be made by cheque. The client will receive a 'certificate' if the gilt is registered in their own name; this will be needed if the gilt is later sold. Alternatively, the broker or a custodian may arrange for the stock to be held in CREST on the client's behalf.

### *...and how to sell*

Sales can be arranged in much the same way. The broker will find the best price offered in the market, agree the sale and deliver the 'stock certificate' to Computershare, together with a stock transfer form signed by the client. If the gilt is held in CREST, the broker or custodian will arrange for the gilt to be transferred to the relevant GEMM. The GEMM will pay the broker the agreed price, and the broker will deduct their commission and pay the balance to the client.

### **• General points to note when buying or selling gilts**

When buying or selling gilts investors need to be aware in particular of two

conventions associated with gilts – rules on accrued interest and ex-dividend periods.

#### **• Accrued interest**

When you are buying or selling a gilt you will generally have to pay or receive an amount of money representing the accrued interest on that gilt. Interest on gilts accrues on a daily basis between one coupon (or dividend) date and the next.

For example, if you bought a holding of 5% Treasury Stock 2008 for settlement on 7 April 2004, i.e. a month after the previous coupon payment (on 7 March) you are also buying 31 days accrued interest which entitled you to receive the full coupon payment on 7 September. The purchase price would therefore have been increased by  $(5\% / 2) \times (31/184) = £0.421196$  per £100 nominal of the gilt<sup>6</sup>. Here 184 is the number of calendar days between 7 March 2004 and 7 September 2004.

Equally you will generally receive a corresponding amount of accrued interest if you are selling a gilt.

#### **• Ex-dividend periods**

Interest payments are usually made to the person who is the registered holder of a gilt 7 business days before the coupon payment date (10 business days for 3½% War Loan) unless alternative instructions have been given to the Registrar. These periods are known as the ex-dividend periods. For example, for

<sup>6</sup> Half the coupon rate multiplied by the number of days on which interest has accrued divided by the total number of days in the coupon period.

## Buying and selling gilts

gilts paying dividends on 7 September 2004 the corresponding ex-dividend date was 26 August 2004. When counting back business days from 7 September to obtain the ex-dividend date non-working days such as Saturdays (28 Aug, 4 Sep), Sundays (29 Aug, 5 Sep) and UK bank holidays (30 Aug) were ignored.

August 2004						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

September 2004						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28				

If you sell within an ex-dividend period you will receive the full dividend payment but will have to pay some of it back to the person who buys your holding<sup>7</sup>. This payment is known as rebate interest and will be deducted from the proceeds of your sales in the contract note.

If you are buying a gilt within the ex-dividend payment you are not entitled to the next interest payment and will pay no accrued interest but you will be eligible to receive rebate interest for the period

between settlement and the due date. The amount of rebate interest will be deducted from the cost of purchase.

For example, if you bought a holding of 5% Treasury Stock 2008 for settlement on 27 August 2004 i.e. 6 business days (11 calendar days) before the next coupon payment (on 7 September) you would not be entitled to this coupon payment. You would however, receive rebate interest per £100 nominal of the gilt from the seller as below:  $(5\% / 2) \times (11/184) = £0.149457$ .

If an investor purchases a gilt for settlement on the final ex-dividend date then they will be entitled to both the final dividend and redemption payment. Trades cannot settle after the final ex-dividend date.

### 3.2 The Approved Group of investors

Since September 2003 people wishing to buy gilts at DMO auctions have had to be members of an Approved Group of investors. This requirement has been extended to all users of the DMO's Retail Gilt Purchase and Sale Service offered by Computershare.

Individuals wishing to join the Approved Group will need to satisfy the criteria established by the DMO and Computershare to meet the UK Government's anti-money laundering obligations. From the time of application it may take approximately 10 working days to process an application. Residents

<sup>7</sup> The amount of rebate interest will depend on when within the ex-dividend period the trade settles.

## Buying and selling gilts

abroad (in selected overseas jurisdictions) who wish to buy and sell gilts must also join the Approved Group, but eligibility criteria may differ from country to country.

The introduction of these arrangements reflects the Government's commitment to combating financial crime in all its forms. In this context, gilts are recognised throughout the world as some of the safest and, consequently, most desirable forms of investment. The Government believes that it would be detrimental to the UK's policy of combating financial crime and to its contribution to the international fight against terrorism if its own instruments were used to launder money.

One way of preventing money laundering is to institute stricter checks on people buying financial services and it is now common practice for banks and building societies to enquire much more thoroughly about potential customers. This is a requirement imposed on them by legislation. By clearly establishing their identity, individuals can help to make it much harder for potential criminals to operate.

An application form to apply for membership is available from the DMO and Computershare. Completed forms should be sent to Computershare at the address at Appendix F.

Once accepted into the Approved Group, individuals will not have to provide evidence of identity and address on each occasion they wish to use the Purchase

and Sale Service or apply at gilt auctions. Only the new issue application forms sent out by the Registrar to Approved Group members will be accepted at auctions held by the DMO.

### 3.3 Buying from the DMO at auctions

Members of the public can only buy gilts outright from the DMO at gilt auctions, when a further amount of a particular gilt is issued. However, in order to do this, a person must be a member of the Approved Group of investors (section 3.2).

The DMO's auction calendar is published up to a year in advance: see the website page [www.dmo.gov.uk/gilts/issuance/isucal.htm](http://www.dmo.gov.uk/gilts/issuance/isucal.htm).

At the end of every quarter, (i.e. March, June, September and December) the DMO announces which gilts it will auction on each date in the following quarter. On the Tuesday of the week before the auction is scheduled, final details are announced, including the size of the auction. At this time members of the Approved Group of investors can (if they choose) receive a Prospectus and an Application Form for the auction from Computershare.

#### *Non-competitive bids*

Members of the public who bid at auctions can bid non-competitively, meaning that **successful applications will be met in full** at the average accepted competitive bid price at the auction (i.e. the weighed average price paid by successful competitive bidders). Below is an example

# Buying and selling gilts

United Kingdom  
Debt  
Management  
Office

HM TREASURY

Computershare Investor Services PLC  
PO Box 2411  
The Pavilions  
Bridgewater Road  
Bristol  
BS3 9WY

Helpline Number: 0870 703 0143

C0000000032

NON-COMPETITIVE APPLICATION FORM

This form must be sent to Computershare Investor Services PLC, PO Box 2411, The Pavilions, Bridgewater Road, Bristol, BS3 9WY, who are acting on behalf of the DMO, to arrive not later than 10.00AM ON THURSDAY 4 NOVEMBER 2004 or to be lodged by hand at the DMO, Eastcourt Court, 11 Philip Lane, London, EC3M 8UD not later than 10.00AM ON THURSDAY 4 NOVEMBER 2004.

AUCTION OF £56 500,000  
5% Treasury Stock 2014  
ON A FULLY PAID BID-PRICE BASIS ON 4 NOVEMBER 2004

TO THE UNITED KINGDOM DEBT MANAGEMENT OFFICE (the 'DMO')

I/we apply in accordance with the terms of the prospectus dated 2 November 2004 and the Information Memorandum relating to the Issue, Stripping and Reconstruction of British Government Stock dated January 2004 (the 'Information Memorandum') as follows:-

Nominal amount of 5% Treasury Stock 2014 applied for: being a multiple of £1,000 and not less than £1,000 and a maximum of £500,000 nominal of stock.

Sum enclosed, being £128.15 for every £100 NOMINAL of stock applied for:

We request that stock sold to me/us be registered in the name(s) shown overleaf, any certificate be sent by post at my/our risk to the first named holder at the address shown overleaf, or the stock be credited to the CREST stock account indicated below; and interest payments be made in accordance with the instructions given overleaf.

We warrant that to my/our knowledge, this is the only non-competitive application made for my/our benefit.

SIGNATURE(S) of Applicant(s)

Signature  Date   
Signature  Date

(Can you please enter your Daytime Telephone Number and/or E-mail Address below, in case there is a query?)

E-mail Address  Daytime Telephone Number

By signing this form you are giving consent for the Registrar to hold your information in accordance with current data protection legislation. The Registrar will use your information for the maintenance of the Register and the payment of interest. You have the right to ask for a copy of information held about you and to request that it is corrected or removed.

Please write to: The Data Protection Manager, Computershare Investor Services PLC, PO Box 2411, The Pavilions, Bridgewater Road, Bristol BS3 9WY.

+ MMMMMMMMMMM HMT +

of a non-competitive application form, it relates to an auction on of 5% Treasury Stock 2014<sup>9</sup>.

The minimum amount that a member of the public may bid for in this way is £1,000 nominal of the gilt and the maximum is £500,000 for conventional gilts and £250,000 for index-linked gilts. Each bid must be a multiple of £1,000.

People bidding non-competitively at auctions are asked to enclose a cheque for a specified amount per £100 nominal bid

for (a non-competitive bid price). This price is set above the prevailing market price so as to avoid the possibility of investors being asked to pay a further sum if the auction price is higher than the price paid upfront – a process which would delay dispatch of gilt certificates. If, as is usual, the auction price is lower than the price paid upfront, the difference is automatically refunded to the investor.

## Competitive bids

Investors who wish to bid for more than £500,000 nominal (or £250,000 for index-linked gilts) must submit their bids through a GEMM (Appendix E) stating the price they are prepared to pay. If an investor submits a competitive bid which is too low, they risk receiving none, or only a proportion of, the amount of the gilt bid for.

No commission is payable on purchases at gilt auctions.

## 3.4 Buying and selling through the DMO Gilt Purchase and Sale Service

Computershare, as Agent for the DMO, offers an execution only service for private investors who wish to purchase and sell gilts by post. People wishing to use the service must be members of the Approved Group of investors (section 3.2).

<sup>9</sup> Amended to assume Computershare was Registrar.

## Buying and selling gilts

Commission charges, particularly for smaller transactions, may be lower than charges made for buying or selling through a stockbroker or bank (section 3.1).

Gilts may be bought or sold by completing the relevant form(s), available from Computershare by telephoning 0870 703 0143 and sending it (with the appropriate payment) to Computershare in Bristol (address in Appendix F). **All trades (purchases and sales) through the Service settle three days after the transaction date.**

A brief summary of how to complete the relevant form(s) is outlined below.

### • Buying

A list of gilts available for purchase is enclosed with each purchase form. An up-to-date list can also be accessed on the DMO website [www.dmo.gov.uk/gilts/data/stock/stklst.htm](http://www.dmo.gov.uk/gilts/data/stock/stklst.htm) (but note that this includes 'rump' gilts<sup>9</sup>, which are not available for purchase). Updated lists of gilts for purchase can also be obtained by phoning Computershare on 0870 703 0143.

When purchasing gilts using the service, applications must be made in money, not nominal, terms – cheques must be made payable to Computershare Investor Services PLC and crossed 'A/C Payee'. It is not possible to specify the nominal amount of a gilt you wish to buy and present a blank cheque to be completed by the Registrar after a purchase has been

made, nor is it possible to specify the maximum price at which your purchase is to be made. Computershare will not accept third party cheques and payments out can only be sent to accounts in the same name as the purchaser.

On receipt of a completed purchase form Computershare will normally instruct the DMO to execute the purchase on the same day and will do so at the latest by the following business day. The price paid for the gilt will be the prevailing market price as determined by the DMO at the time of the purchase.

### • Commissions

The purchase form will also specify the commission charges applicable to the amount being invested. In completing the cheque investors should be aware that a commission charge will be deducted from the funds used to purchase the gilt.

Commission rates for the Retail Gilt Purchase and Sale Service will be published on the DMO website at [www.dmo.gov.uk/gilts/buysell/purchase-sale.htm](http://www.dmo.gov.uk/gilts/buysell/purchase-sale.htm)

On confirmation of receipt of cleared funds (typically three days after receipt of the postal instruction) Computershare will settle the purchase of the specified gilts from the DMO and will aim to send you the gilt certificate four business days after the purchase was transacted. You will also receive a contract note showing the detailed statement of the costs.

<sup>9</sup> Rump gilts are small illiquid gilts in which gilt-edged market makers are not obliged to make markets. The DMO is however prepared to buy rump gilts (Appendix C).

## Buying and selling gilts

- **Selling**

On receipt of a completed sale form Computershare will normally instruct the DMO to sell your holding of gilts on the same day and will do so at the latest by the following business day. You are not able to specify a price at which your sale is to be made. The price received for the gilt will be the prevailing market price as determined by the DMO at the time of the sale.

Computershare will make payment to you once it has received settled funds from the DMO. You may choose to receive proceeds by cheque or by automated transfer (BACS). You will also receive a contract note showing the detailed statement of the costs and proceeds.

The Computershare website at [www.computershare.com/uk/investor/gilts](http://www.computershare.com/uk/investor/gilts) includes brokerage information, Frequently Asked Questions, downloadable forms (payment instructions, gross payment of interest, deduction of income tax, stock transfer form, change of name and change of address) and upcoming payment information.

Further information on buying and selling gilts may be obtained by accessing Computershare's website at [www.computershare.com/uk/investor/gilts](http://www.computershare.com/uk/investor/gilts) alternatively, you can call 0870 703 0143.

## Registration of gilts

Computershare maintains the main register of holdings of gilt-edged securities under a contract from HM Treasury (and administered by the DMO). It will send out dividends to arrive on the due dates, and redemption monies when each gilt matures. Gilt holders are advised to ensure that Computershare holds a record of their current address. All personal records are held in compliance with the requirements of the Data Protection Act 1998.

Further information may be obtained by visiting Computershare's website [www.computershare.com/uk/investor/gilts](http://www.computershare.com/uk/investor/gilts) or by calling 0870 703 0143.

### *Holding of gilts in dematerialised form*

A buyer of gilts held within the CREST system in dematerialised form receives immediate and irrevocable legal title to their securities at the point of transfer. The effect of this is that the register of legal ownership of dematerialised gilts is now kept by CrestCo. However, Computershare acts as the paying and receiving agent for dematerialised gilts and keeps a parallel record of the CREST register to enable it to discharge these functions.

# Taxation of gilts

Gilts are a straightforward investment for UK private investors. What follows aims only to be a general introduction to the main taxation rules applying to gilts at the time of writing. The exact treatment applied in any individual case depends on the particular circumstances of each taxpayer. If in doubt, investors should seek professional advice.

## UK individuals

### a) Conventional and index-linked gilts

- UK individual investors are taxable on interest receivable on gilts (including the interest uplift on index-linked gilts). Interest is normally payable gross, but investors may opt for net payment on application to the Gilts Registrar, Computershare.
- UK individual investors may be taxable on accrued or rebate interest on transfers of gilts.
- Individuals are not liable to capital gains tax or income tax on the disposal of gilts.
- No stamp duty or stamp duty reserve tax is payable on purchases or sales of gilts.

### b) Gilt strips

- All gains and losses on gilt strips held by individuals are taxed as income on an annual basis. At the end of the tax year, individuals are deemed for tax purposes to have disposed of and reacquired their holdings of gilt strips at their then prevailing market value. Any resulting gain (or loss) arising during the year on the holding should be added to the gain (or loss) on any strips actually

maturing in the tax year. The overall gain (or loss) is taxed (relieved) as income.

### c) Individual Savings Accounts (ISAs)

- It is possible to hold gilts (conventional, index-linked or strips) in an ISA, in which case income and capital gains from investments held in ISAs are exempt from income tax and capital gains tax and should not be shown on tax returns. Should you wish to hold gilts in an ISA they will need to be purchased through an approved ISA manager. Any gilt held in an ISA must have at least five years to maturity at the time of purchase.

Further information is available on the Inland Revenue's website at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

## Overseas investors

Gilts held on FOTRA (Free of Tax to Residents Abroad) terms, and the interest on them, are generally exempt from tax if they are held by persons who are not ordinarily resident in the UK. The precise terms depend on the prospectus under which the gilts were issued; but under the most recent version (post-1996), income on FOTRA gilts is exempt from tax if the holder is non-resident, unless the income is received as part of a trade conducted in the UK. In April 1998, all existing non-FOTRA gilts were made FOTRA gilts on post-1996 terms.

### • Annual Statements of Interest (ASIs)

Investors having their interest paid direct to a bank or building society account are normally sent an Annual Statement of

## Taxation of gilts

Interest (ASI) at the beginning of the following financial year. An example is shown opposite. This shows the total amount of interest received and any tax paid during the previous tax year. If appropriate, investors can opt, instead, for an ASI relating to a calendar tax year.

As an alternative to direct payment, interest can be paid by means of a warrant (cheque) which will be sent by post at the risk of the investor. In this instance a tax voucher will be attached.

Your tax adviser, your own tax office, or your local Inland Revenue Tax Enquiry Centre are all sources of advice and information on the taxation of gilts, should you need it.

	<b>MRS AMELIA BROWN</b> <b>MR ROBERT JOHNSON BROWN</b> <b>4 VICTORIA COURT</b> <b>WESTMINSTER</b> <b>LONDON</b> <b>SW1H 0NT</b>	 <b>Computershare Investor Services PLC</b> <b>P.O. Box 2411</b> <b>The Pavilions</b> <b>Bridgewater Road</b> <b>Bristol</b> <b>BS3 1WY</b>  <b>Helpline Number: 0870 703 0143</b>				
<b>SPR210</b>	<b>C0000000032</b>	<b>HMT</b>				
<b>ANNUAL STATEMENT OF INTEREST</b>						
<b>For the Tax Year 2003 - 2004</b>						
<b>Stock Title</b>	<b>5% TSY STOCK 2014</b>					
<b>Reference Number</b>	<b>C0000000032</b>	<b>ISIN Number</b> <b>GB0001633014</b>				
<b>PAYOUT DUE DATE</b>	<b>INTEREST RATES</b>	<b>CAPITAL</b>	<b>GROSS INTEREST</b>	<b>TAX</b>	<b>PAYOUT</b>	
<b>07-MAR-04</b>	<b>2.50%</b>	<b>£1000.00</b>	<b>£25.00</b>	<b>20.00%</b>	<b>£5.00</b>	<b>£20.00</b>
<b>07-OCT-03</b>	<b>2.50%</b>	<b>£1000.00</b>	<b>£25.00</b>	<b>20.00%</b>	<b>£5.00</b>	<b>£20.00</b>
<i>Total amount of interest paid in Tax Year 2003 - 2004</i>						<b>£40.00</b>
<i>This statement shows - (i) The interest due during the specified tax period and (ii) how much tax was deducted.</i>						
<b>PLEASE NOTE</b>						
<i>Interest for which you received a statement AT THE TIME THE INTEREST WAS PAID WILL NOT be shown on this statement.</i>						
<i>Computershare Investor Services PLC certify that the income tax shown above has been deducted.</i>						
<i>This statement should be kept in a safe place. It will be accepted by the Inland Revenue as evidence if you are entitled to claim the repayment of tax.</i>						
 						

## Conversion offers

From time to time the DMO announces offers to holders of gilts to exchange or convert their holdings of one gilt into another at a fixed rate (the 'conversion' rate) based on the prevailing market prices of each gilt. The main purpose of such conversion offers is to provide an opportunity for gilt holders to switch out of an existing less liquid gilt into a more liquid, possibly strippable, gilt without incurring transaction costs. Conversion offers are typically more likely to be held in times of low outright gilt issuance when it is more difficult for the DMO to build up large benchmark issues by outright issuance alone.

Acceptance of such offers is voluntary and gilt holders are free to retain their existing

gilt, although this may become less liquid (less frequently traded) if the bulk of other holders choose to accept an offer. Should the amount outstanding of a gilt which has been subject to a conversion offer be too small to expect a two-way market to exist, it becomes known as a 'rump gilt'. See Appendix C for an explanation of 'rump gilts'.

Investors who hold a gilt which becomes subject to a conversion offer should consult their stockbroker, solicitor, accountant or other professional adviser if they are uncertain as to the best course to follow.

## Euro redenomination

Gilts continue to be denominated in sterling. However, if in the future, the UK were to adopt the euro the assumption is that holdings of gilts would be converted or redenominated from pounds and pence into euros and cents on entry to EMU, i.e. the day that the £/€ conversion rate becomes effective for the wholesale markets.

Details of the redenomination of individual gilt holders' holdings would be made available in the event of any future redenomination.

## Appendix A

## Gilts in issue 30 November 2004

Total amount in issue (inc IL uplift) £mn: 340,282

Conventional Gilts	Redemption Date	Dividend Dates	Amount in issue (£mn norm)	Amount held in stripped form at 2 Dec 2004	DMO/CRND Holdings (DMO & CRND) at 30 Nov 2004
<b>Shorts: (maturity up to 7 years)</b>					
9½% Conversion 2005	18-Apr-05	18 Apr/Oct	4,469	-	97
8½% Treasury 2005	07-Dec-05	7 Jun/Dec	10,486	157	312
7¾% Treasury 2006	08-Sep-06	8 Mar/Sep	3,955	-	441
7½% Treasury 2006	07-Dec-06	7 Jun/Dec	11,807	159	276
4½% Treasury 2007	07-Mar-07	7 Mar/Sep	11,500	1	22
8½% Treasury 2007	16-Jul-07	16 Jan/Jul	4,638	-	371
7¾% Treasury 2007	07-Dec-07	7 Jun/Dec	11,103	133	247
5% Treasury 2008	07-Mar-08	7 Mar/ Sep	14,221	45	163
5½% Treasury 2008/2012	10-Sep-08	10 Mar/Sep	1,026		182
4% Treasury 2009	07-Mar-09	7 Mar/Sep	13,250	26	18
5¾% Treasury 2009	07-Dec-09	7 Jun/Dec	11,437	120	358
4¾% Treasury 2010	07-Jun-10	7 Jun/Dec	3,500		1
6¾% Treasury 2010	25-Nov-10	25 May/Nov	4,958	-	477
9% Conversion 2011	12-Jul-11	12 Jan/Jul	5,396	-	205
<b>Mediums: (maturity 7 to 15 years)</b>					
7¾% Treasury 2012/2015	26-Jan-12	26 Jan/Jul	805	-	339
5% Treasury 2012	07-Mar-12	7 Mar/ Sep	13,346	183	235
8% Treasury 2013	27-Sep-13	27 Mar/Sep	6,181	-	386
5% Treasury 2014	07-Sep-14	7 Mar/Sep	13,050	21	57
4¾% Treasury 2015	07-Sep-15	7 Mar/Sep	13,000	143	8
8% Treasury 2015	07-Dec-15	7 Jun/Dec	7,377	220	172
8¾% Treasury 2017	25-Aug-17	25 Feb/Aug	7,751	-	380
<b>Longs: (maturity over 15 years)</b>					
8% Treasury 2021	07-Jun-21	7 Jun/Dec	16,741	272	346
5% Treasury 2025	07-Mar-25	7 Mar/Sep	12,922	46	177
6% Treasury 2028	07-Dec-28	7 Jun/Dec	11,756	197	309
4¾% Treasury 2032	07-Jun-32	7 Jun/Dec	13,829	557	251
4½% Treasury 2036	07-Mar-36	7 Mar/Sep	12,250	70	3
4¾% Treasury 2038	07-Dec-38	7 Jun/Dec	9,500	15	5

## Appendix A

Index-Linked Gilts	Redemption Date	Dividend Dates	Amount in issue (£mn norm)	Nominal including Inflation Uplift	Central Govt Holdings (DMO & CRND) at 29 Oct 2004
2% I-L Treasury 2006	19-Jul-06	19 Jan/Jul	2,037	5,412	37
2½% I-L Treasury 2009	20-May-09	20 May/Nov	3,098	7,261	74
2½% I-L Treasury 2011	23-Aug-11	23 Feb/Aug	4,342	10,752	70
2½% I-L Treasury 2013	16-Aug-13	16 Feb/Aug	6,022	12,462	105
2½% I-L Treasury 2016	26-Jul-16	26 Jan/Jul	6,805	15,391	170
2½% I-L Treasury 2020	16-Apr-20	16 Apr/Oct	5,568	12,389	68
2½% I-L Treasury 2024	17-Jul-24	17 Jan/Jul	5,751	10,870	112
4½% I-L Treasury 2030	22-Jul-30	22 Jan/Jul	3,521	4,811	72
2% I-L Treasury 2035	26-Jan-35	26 Jan/Jul	5,550	5,902	1

## Appendix A

Undated Gilts (non-rump)	Redemption Date	Dividend Dates	Amount in issue	Central Govt Holdings (DMO & CRND) at 30 Nov 2004
2½% Treasury	Undated	1 Apr/Oct	493	22
3½% War	Undated	1 Jun/Dec	1939	30
'Rump' Gilts	Redemption Date	Dividend Dates	Amount in issue	Central Govt Holdings (DMO & CRND) at 30 Nov 2004
10½% Exchequer 2005	20-Sep-05	20 Mar/Sep	24	16
9¾% Conversion 2006	15-Nov-06	15 May/Nov	6	3
9% Treasury 2008	13-Oct-08	13 Apr/Oct	687	154
8% Treasury 2009	25-Sep-09	25 Mar/Sep	393	126
9% Treasury 2012	06-Aug-12	6 Feb/Aug	403	158
12% Exchequer 2013/2017	12-Dec-13	12 Jun/Dec	58	9
4% Consolidated	Undated	1 Feb/Aug	358	62
2½% Consolidated	Undated	5 Jan/Apr/Jul/Oct	272	48
3½% Conversion	Undated	1 Apr/Oct	88	73
3% Treasury	Undated	5 Apr/Oct	53	7
2½% Annuities	Undated	5 Jan/Apr/Jul/Oct	3	0.5
2¾% Annuities	Undated	5 Jan/Apr/Jul/Oct	1	0.3

## Appendix B

### Index-linked gilt cash flows

#### Cash flows for 2005:

Gilt	Dividend Date	Dividend per £100	Dividend Date	Dividend per £100
2% IL 2006	19-Jan-05	£2.68	19-Jul-05	N/A
2 <sup>1</sup> / <sub>2</sub> % IL 2009	20-May-05	£2.9854	20-Nov-05	N/A
2 <sup>1</sup> / <sub>2</sub> % IL 2011	23-Feb-05	£3.13	23-Aug-05	N/A
2 <sup>1</sup> / <sub>2</sub> % IL 2013	16-Feb-05	£2.6176	16-Aug-05	N/A
2 <sup>1</sup> / <sub>2</sub> % IL 2016	26-Jan-05	£2.8561	26-Jul-05	N/A
2 <sup>1</sup> / <sub>2</sub> % IL 2020	16-Apr-05	£2.8234	16-Oct-05	N/A
2 <sup>1</sup> / <sub>2</sub> % IL 2024	17-Jan-05	£2.3869	17-Jul-05	N/A
4 <sup>1</sup> / <sub>2</sub> % IL 2030	22-Jan-05	£2.8471	22-Jul-05	N/A
2% IL 2035	26-Jan-05	£1.074309	26-Jul-05	N/A

#### Cash flows for 2005:

Gilt	Dividend Date	Dividend per £100	Dividend Date	Dividend per £100
4 <sup>3</sup> / <sub>8</sub> % IL 2004	21-Apr-04	£2.9295	21-Oct-04	2.9650 (+135.5457 redemption payment)
2% IL 2006	19-Jan-04	£2.61	19-Jul-04	2.62
2 <sup>1</sup> / <sub>2</sub> % IL 2009	20-May-04	£2.8965	20-Nov-04	2.9298
2 <sup>1</sup> / <sub>2</sub> % IL 2011	23-Feb-04	£3.03	23-Aug-04	3.07
2 <sup>1</sup> / <sub>2</sub> % IL 2013	16-Feb-04	£2.5405	16-Aug-04	2.5714
2 <sup>1</sup> / <sub>2</sub> % IL 2016	26-Jan-04	£2.7795	26-Jul-04	2.7979
2 <sup>1</sup> / <sub>2</sub> % IL 2020	16-Apr-04	£2.7360	16-Oct-04	2.7692
2 <sup>1</sup> / <sub>2</sub> % IL 2024	17-Jan-04	£2.3229	17-Jul-04	2.3382
4 <sup>1</sup> / <sub>2</sub> % IL 2030	22-Jan-04	£2.7708	22-Jul-04	2.7891
2% IL 2035	26-Jan-04	£1.045507	26-Jul-04	1.052419

Note: The latest relevant RPI available when these tables were produced was that for September 2004 published in October 2004.

# Appendix C

## Frequently Asked Questions

### *Q1: What is a 'rump' gilt?*

A 'rump' gilt is a gilt, declared by the DMO, in which GEMMs are not required to make two-way markets. The current list of rump gilts is available on the DMO website [www.dmo.gov.uk/gilts/data/stock/stklst.htm](http://www.dmo.gov.uk/gilts/data/stock/stklst.htm). Current Rump gilts are identified in Appendix A; any changes to the list will be published on the DMO website.

The Government will **not** sell further amounts of 'rump' gilts to the **market**, but the DMO is prepared, when asked by a GEMM, to bid a price of its own choosing for such gilts. Members of the public who are members of the Approved Group can sell 'rump' gilts via the DMO Gilts Purchase and Sale Service (see section 3.4 above) but not buy them.

### *Q2: Some newspapers quote interest and redemption yields for gilts. What is the difference? And why are redemption yields so low?*

The interest yield is simply a yield derived by dividing the coupon by the price paid. It is of use only as a short-term indicator of return over a short period of time. The redemption yield - or yield to maturity - is the standard way for measuring the return on gilts. It is a complex net present value calculation which assumes that the gilt is held to maturity and repaid at par and that all future income streams from the coupons are reinvested at current redemption yields. Where a gilt is high coupon and trading well above par, this calculation reflects the capital loss involved in holding to redemption (although this loss is mitigated by the receipt of coupon payments above prevailing interest rates). Similarly, the calculation takes into account the effect of capital gain for a gilt trading well below par (at a discount).

### *Q3: Why are yields on index-linked gilts so much lower than those on conventionals?*

Because yields on index-linked gilts are 'real' yields, that is they represent the return to the holder of the gilt after taking account of inflation. All real yields published by the DMO assume an annual inflation rate of 3%, although some newspapers also assume a 5% rate.

## Appendix D

### Glossary

**Accrued interest.** Interest earned on a gilt since the last interest payment date, which is paid and received at the time of a transaction in addition to the clean price of the gilt.

**Approved Group.** See section 3.2.

**Auction (Gilt).** Conventional gilts: Open to all bidders, although only GEMMs are allowed to make telephone bids - individuals can make non-competitive postal bids. Successful bidders in conventional gilt auctions are allotted gilts on a bid price basis, paying the price they bid. There is also a limited facility for non-competitive bids.

**Auction (Index-linked gilts).** Open to Index-linked GEMMs only (for competitive bids) and conducted on a uniform price basis, based on the lowest accepted price. There is also a limited facility for non-competitive bids.

**Basis point (bp).** One hundredth of one percent.

**Benchmarks.** Informal term for liquid gilts, usually with a large outstanding amount and coupons in line with the prevailing general level of interest rates, which are used by participants in other markets to price other instruments of corresponding maturity, e.g. corporate bonds.

**Clean price.** Quoted price of a gilt which excludes accrued interest.

**Competitive bid.** A bid for the gilt which,

if successful, would be allotted at the price made by a bidder in an auction for a conventional gilt.

**Non-competitive bid.** A bid where no price is specified; such bids are allotted at the weighted average price of successful competitive bid prices.

**Conventional gilts (including double-dated).** Gilts on which interest payments and principal repayments are fixed.

**Coupon.** Annual interest paid on gilt holding, usually in two equal, semi-annual instalments. Expressed as in percentage terms.

**Cum dividend.** The trading status of a bond where the purchaser of the bond is entitled to receive the next interest or dividend payment. The alternative is ex dividend, where the seller of the bond retains the right to receive the next interest or dividend payment.

**DMO.** The United Kingdom Debt Management Office.

**Duration.** A measure of a bond's volatility or the sensitivity of the bond's price to changes in interest rates (defined as the weighted average of the number of years in the bond's life, the weighting factor being the present value of the cash flows discounted at the bond's redemption yield).

**GEMMs.** Gilt-edged Market Makers – primary dealers in gilts.

**Gilt.** A UK Government security issued

## Appendix D

by HM Treasury. The term 'gilt' (or 'gilt-edged') is a reference to the primary characteristic of gilts as an investment: their security.

**IGs.** Index-linked gilts whose coupons and final redemption payment are related to movements in the Retail Prices Index (RPI).

**Liquidity.** A term describing the ease with which one can undertake transactions in a particular market or instrument. A market where there are always buyers and sellers willing to transact at competitive prices is regarded as liquid.

**Maturity date.** Date on which a dated gilt is redeemed i.e. the capital is repaid.

**Nominal amount/value.** The face value or amount of a gilt, i.e. the amount of capital a holder receives when the gilt redeems.

**Nominal amount/value (uplifted).** Applicable to index linked-gilts: this is the nominal amount uplifted by inflation since the gilt was first issued.

**Primary market.** The issuance by the DMO (typically by auction) of a new gilt or a new tranche of an existing gilt.

**Redemption yield.** The redemption yield is the measure of the return implicit in the current market price assuming the gilt is held to redemption and all cash flows are re-invested back into the bond.

**Register.** Record of ownership of securities. For gilts, excluding bearer bonds, entry in an official register confers title.

**Secondary market.** Where existing securities are traded by market participants.

**Spread.** Difference between a market maker's buying and selling prices.

**Strips.** Separate Trading of Registered Interest and Principal Securities; for some ('strippable') gilts, the coupons and principal can be traded separately.

**Undated gilts.** Gilts for which there is no fixed redemption date.

**Yield.** The DMO quotes only gross redemption yields. See redemption yield.

**Yield curve.** The mathematical relationship computed across all gilts between maturity and yield.

## Appendix E

### List of Gilt-edged market makers (GEMMs)

ABN Amro Bank NV 250 Bishopsgate London EC2M 4AA	JP Morgan Securities Limited 125 London Wall London EC2Y 5AJ
Barclays Capital* 5 The North Colonnade Canary Wharf London E14 4BB	Lehman Brothers International (Europe)* 25 Bank Street Docklands London E14 5LE
Citigroup Global Markets Limited Citigroup Centre 33 Canada Square London E14 5LB	Merrill Lynch International* Merrill Lynch Financial Centre 2 King Edward Street London EC1A 1HQ
CS First Boston Limited* One Cabot Square London E14 4QJ	Morgan Stanley & Co. International Limited* 20 Cabot Square Canary Wharf London E14 4QW
Deutsche Bank AG (London Branch)* Winchester House 1 Great Winchester Street London EC2N 2DB	Royal Bank of Canada Europe Limited* Thames Court One Queenhithe London EC4V 4DE
Dresdner Bank AG (London Branch)* PO Box 18075 Riverbank House 2 Swan Lane London EC4R 3UX	Royal Bank of Scotland* 135 Bishopsgate London EC2M 3UR
Goldman Sachs International Limited* Peterborough Court 133 Fleet Street London EC4A 2BB	UBS Limited* 1 Finsbury Avenue London EC2M 2PP
HSBC Bank PLC* 8 Canada Square London E14 5HQ	Winterflood Securities Limited* The Artrium Building Cannon Bridge 25 Dowgate Hill London EC4R 2GA

\*Index-linked Gilt-edged Market Makers.

## Appendix F

### Useful contacts and websites

#### UK DEBT MANAGEMENT OFFICE

*For general enquiries and planned gilt issuance:*

Eastcheap Court  
11 Philpot Lane  
London EC3M 8UD  
Telephone 020 7862 6500  
Website address: [www.dmo.gov.uk](http://www.dmo.gov.uk)

#### COMPUTERSHARE INVESTOR SERVICES PLC

Registered in England No 3498808  
*For enquiries about individual holdings, giltholder services and Approved Group forms:*

The Pavilions  
Bridgwater Road  
Bristol  
BS13 8AE  
Telephone 0870 703 0143  
Website address:  
[www.computershare.com](http://www.computershare.com)

#### BANK OF ENGLAND STERLING MARKETS DIVISION

*For enquiries on index-linked interest payments on index-linked gilt first issued before 2002 and the calculation of redemption proceeds on such gilts:*

Threadneedle Street  
London EC2R 8AH  
Telephone 020 7601 4444  
Website address:  
[www.bankofengland.co.uk](http://www.bankofengland.co.uk)

#### THE LONDON STOCK EXCHANGE

*For information on stockbrokers who will arrange transactions in gilts:*

10 Paternoster Square  
London EC4M 7LS  
Telephone 020 7797 1000  
Website address:  
[www.londonstockexchange.com](http://www.londonstockexchange.com)

#### INDEPENDENT COMPLAINTS SERVICE

*If you have a complaint about the service provided by a stockbroker:*

The Financial Ombudsman  
South Quay Plaza  
183 March Wall  
London E14 9SR  
Telephone 0845 080 1800  
Website address:  
[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

## Notes



*United Kingdom*  
**Debt**  
**Management**  
**Office**

*Eastcheap Court*  
*11 Philpot Lane*  
*London EC3M 8UD*