

Each evening the DMO publishes reference prices (and associated gross redemption yields) on behalf of the Gilt-edged Market Makers Association (GEMMA), using prices provided by its members. These prices are published on the DMO's wire services pages and its website. This box briefly explains how the prices and yields are derived.

Members of GEMMA provide clean¹, mid-market prices for gilts for which they are a recognised market maker (conventional and/or index-linked gilts).. The median value of the prices contributed for each gilt is first derived; any outlying prices are then excluded, and the arithmetic mean of the remaining prices calculated. For conventional gilts, the margin for outliers is 15p and for IGs it is 20p. The averaged clean prices for conventional and IGs are first rounded to 2 decimal places (consistent with the normal trading convention) and then adjusted to provide dirty prices for settlement the following business day. Dirty prices and strips prices are rounded to 6 decimal places. All prices are quoted per £100 nominal.

If any rump gilts exist², the prices of these are derived by the DMO from the prices of other gilts with similar characteristics. The prices for strips are calculated using the DMO's theoretical yield curve model fitted to conventional gilts.

All yields are calculated from prices (and prices calculated from yields for the strips) using the DMO yield formulae, which are set out in "Formulae for Calculating Gilt Prices from Yields", published in March 2005 (available on the DMO's website at: www.dmo.gov.uk/public/technical/yldeqns.pdf). This includes the use of a 3% inflation assumption for the calculation of yields on index-linked gilts with an 8-month indexation lag. Yields are calculated from the rounded averaged prices for each gilt, and the yields are rounded to 3 decimal places.

The prices are published on the DMO's wire service pages shortly after 5pm each evening³. A table setting out the page layouts can be found on the DMO's website. This is directed mainly towards those end-investors who have or wish to set up automatic field captures linked to live market data services.

Although the DMO monitors the quality of the prices provided by the GEMMs and IG GEMMs, no warranty is given of their accuracy. In addition, the prices are for reference only and do not constitute an offer to buy or sell securities.

Example (assuming 7 contributors, for simplicity)

Gilt: 6% Treasury Stock 2028;

Settlement date: 16 June 1999

Clean prices contributed (arranged in increasing order of magnitude): 117.32, 117.45, 117.76, 117.82, 117.86, 117.98, 117.99

Median clean price = 117.82

Outlier exclusion: reject clean prices which are more than 15p lower or higher than 117.82

Remaining clean prices: 117.76, 117.82, 117.86

Averaged clean price = arithmetic mean of the remaining clean prices = $(117.76 + 117.82 + 117.86)/3 = 117.81333333\dots$

Rounded averaged clean price = **117.81**

Rounded accrued interest = 0.147541

Rounded dirty price = $117.81 + 0.147541 = \mathbf{117.957541}$

Rounded DMO yield (calculated from the rounded dirty price) = **4.857**

The figures in bold are published alongside the gilt's name on the wire services.

¹ i.e. excluding accrued or rebate interest.

² An explanation of rump gilts can be found in the annex.

³ These pages can be found from GEMMA01 (and from GEMMA13 for strips).

ANNEX: RUMP GILTS

Currently there are no rump gilts in issue (the last matured in July 2015).

Rump gilts are defined as small gilts (in terms of nominal amount outstanding), for which the GEMMs are not required to make a market, but for which the DMO will be prepared to provide a bid price if requested. Periodically the DMO revises the criteria which determine whether or not a gilt has rump status. The table below indicates the changes that have been made to the rump criteria:

- Up until 22 July 1998 gilts with less than £110 million nominal were classified as rumps.
- From 22 July 1998 (3:30pm) the rump threshold was increased to £250 million nominal. [11¾% Treasury Stock 2003-2007 became a rump].
- [On 1 February 1999, 12½% Treasury Stock 2003-2005 became a rump following a conversion offer out of it].
- From 26 July 1999 (3:30pm) the rump threshold was increased to £310 million nominal. [9½% Conversion Stock 2004 and 2½% Consolidated Stock became rumps].
- From 21 September 1999 (3:30pm) the rump threshold was increased to £400 million nominal. [8% Treasury Stock 2009 and 4% Consolidated Loan became rumps].
- From 23 July 2001(8:30am) the rump threshold was increased to £410 million nominal. [9% Treasury Stock 2012 became a rump].
- From 5 August 2002 (8:30am) 9% Treasury Loan 2008 was classified as a rump. Although above the usual rump threshold of £410 million nominal the decision was made to make this a rump gilt following the conversion into 5% Treasury Stock 2008 because the remaining holdings were so tightly held as to prevent the existence of a viable two way market in the gilt.
- From 21 December 2004 (3:30pm) the definition of rump gilts was amended to include all gilts with less than £750 million nominal outstanding. As a result, 2½% Treasury Stock (undated) was declared a rump.
- With effect from the start of business on 13 March 2006, the definition of rump gilts was amended to include all gilts whose nominal size has been reduced to less than £850 million. As a result, 5½% Treasury Stock 2008-2012 and 7¾% Treasury Stock 2012-2015 were declared rumps.