

Independent Reference Prices Review

Gilt and Treasury Bill Reference Prices Request for Proposals

5 July 2016

1. Introduction

1.1 Purpose

1. The UK Debt Management Office ('DMO') currently publishes end-of day reference prices for gilts and Treasury bills on behalf of the Gilt-edged Market Makers Association (GEMMA) and CREST.
2. This document is a Request for Proposals being made by the Independent Reference Prices Review (the 'Review').
3. This document sets out the information which is requested to be submitted to the Review setting out proposals to provide successor arrangements for the provision of either or both of the following sets of prices:
 - End-of-day gilt reference prices (including strips); and
 - End-of-day Treasury bill reference prices.

1.2 Background

4. On 21 January 2015, the UK Debt Management Office ('DMO') announced that it intended to withdraw in due course from the provision of reference prices¹. There followed a period of engagement with the market to consider how this could best be achieved. The findings of this exercise were reported in two update papers available on the DMO website.²
5. In late 2015 it was announced that there would be an independent review into the successor arrangements for the reference prices provided by the DMO. Professor David Miles CBE was appointed as the Head of the Review in January 2016.
6. Since March 2016 the Review has engaged with a range of market participants. These have included representatives of the primary dealers – the Gilt-edged Market Makers ('GEMMs') - institutional investors, other end-users such as FTSE and CREST and trade associations including the Investment Association and the Wholesale Markets Brokers Association. The Review has also met with several firms who have expressed an interest in providing reference gilt prices.
7. On 19 May 2016, the Review published a consultation document to afford an opportunity to interested parties to give their views on any successor arrangements to the DMO's provision of gilt and Treasury bill reference prices.
8. The Review received 28 responses to the consultation from a wide variety of stakeholders including GEMMs, end-users, index providers, individual retail investors, academics and the official sector. The main findings are summarised in Section 3.3 below.

¹ DMO Press notice, 21 January 2015. <http://www.dmo.gov.uk/docs/gilts/press/pr210115.pdf>

² 'Interim update', 12 March 2015 and 'Feedback on stakeholder engagement', <http://www.dmo.gov.uk/index.aspx?page=PriceProvision/Information>

1.3 Objective

9. It is possible that, if the DMO simply ceased producing reference prices, then a single alternative source might emerge. However, whether or not that were to happen, and whether or not a single source of data is desirable, it is likely that, without some coordination, there would be a period of uncertainty and disruption. The Review sees its role as helping to guide the transition to successor arrangements, in light of the views of all stakeholders, in order to reduce any disruption.

10. With this in mind, the Review will recommend to HM Treasury ministers its preferred choice(s) of providers of the successor arrangements and will set out a roadmap for the transition from the present arrangements.

2. The Request for Proposals

2.1 Instructions to potential providers

11. Whilst every endeavour has been made to give potential providers an accurate description of the requirements of this exercise, potential providers should form and rely on their own conclusions about the methods and resources needed to meet those requirements.

12. This request for proposals is not an offer to contract. The acknowledgement of receipt of any submitted response does not constitute any actual or implied agreement between the Review (or any other person) and the potential provider.

13. The Review may ask potential providers to substantiate any statement in its response to this request for proposals.

2.2 Submission of proposals

14. Indicative timetable:

Request for proposals published:	5 July 2016
Deadline for indicating interest:	22 July 2016
Deadline for responses:	5 August 2016
Period for clarifications:	5 - 29 July 2016
Presentations by short listed potential providers:	22 – 26 August 2016
Review to finalise its recommendations:	September 2016

15. *Clarifications:* Requests for any clarifications in relation to this document by potential providers should be made in writing to the Review via refprices@dmo.gsi.gov.uk within the period specified above.

16. *Indicating interest:* The Review team would be grateful if all potential providers could indicate their interest in submitting proposals at their earliest convenience and no later than **22 July 2016**. This should be done via refprices@dmo.gsi.gov.uk indicating whether the proposals will be for (a) end-of-day gilt reference prices, (b) end-of-day Treasury bill reference prices, or (c) both.

17. *Response deadline:* Any proposals received late (i.e., after **5:00pm BST on 5 August 2016**) will be rejected unless there are circumstances considered to be extenuating by the Review. If you wish to submit a proposal and believe that you may be unable to meet the

deadline, you should contact the Review team as soon as possible before the deadline at: refprices@dmo.gsi.gov.uk

18. Potential providers should submit their proposals electronically to the Review via refprices@dmo.gsi.gov.uk

2.3 Modification and withdrawal of submitted documents

19. Potential providers may modify any submitted proposals prior to the deadline by notifying the Review team at: refprices@dmo.gsi.gov.uk.

20. Proposals cannot be modified after the deadline.

2.4 Costs and expenses

21. Potential providers will not be entitled to claim from the Review any costs or expenses which may be incurred in preparing their proposals, including those associated with site visits and demonstrations, whether or not the potential provider is successful.

2.5 The response to the request for proposals

22. Proposals should provide:

- a sufficiently detailed level of information to demonstrate how the proposal will be delivered;
- a well-structured response that is easy for the Review team to navigate with accurate references to information provided in additional sections or included as annexes; and
- clear indications of experience, supported by references, with respect to the provision of comparable services to those needed for the administration of the successor arrangements.

3. Evaluation of Proposals

3.1 Evaluation process

23. The Review will run an open and competitive evaluation of the proposals.

24. When evaluating proposals the Review team will take account of the following:

- a) references offered or provided by the potential provider and followed up by the Review team;
- b) any presentation of the proposal requested and arranged by the Review team;
- c) any issues raised during the roundtable meetings with GEMMs and end-users (see paragraph 27 below) which could impact on the feasibility or sustainability of the proposals; and

d) the responses to the consultation document of 19 May 2016 and which are summarised in Section 3.3 below.

25. The Review team will evaluate all the proposals which it receives and plans to form a shortlist of potential providers who will be asked to present to the Review team.

26. Potential providers that are unsuccessful in being shortlisted for the presentation referred to in 9.3 above to the Review will be notified promptly.

27. Towards the end of the evaluation process the Review intends to hold roundtable meetings with GEMMs and end-users of reference prices currently provided by the DMO. The purpose of these meetings is to identify any technical issues which may impact on the feasibility or sustainability of the proposed successor arrangements. Potential providers are requested to make clear in their proposals any information which they would not wish to be shared at these meetings.

28. The decision of what recommendations the Review will make lies entirely with the Head of the Review.

3.2 Evaluation criteria

29. The proposals will be assessed to determine the best provider(s) to deliver the successor arrangements to the reference prices currently provided by the DMO.

30. The primary criteria against which proposals will be assessed are outlined in section 3.4 below.

31. The Review team will take into account the responses from the consultation document in order to evaluate whether proposals are in line with the needs of the market. The main findings from the consultation are summarised in Section 3.3 and potential providers are encouraged to note these when putting together their proposals.

32. The Review team may ask some or all potential providers to provide further information, clarification, site visits and so forth to aid its assessment of their responses.

33. The Review team may seek written clarification on any matter relevant to the potential provider's proposals.

34. The Review team reserves the right to substantiate to its satisfaction any statement made by a potential provider to the Review in connection with its proposal.

35. Potential providers may submit clarification requests in relation to the evaluation process and the content of this document via email to the Review team (refprices@dmo.gsi.gov.uk).

3.3 Main findings from the majority of responses to the consultation

36. This section outlines the main findings from the responses to the consultation:

- Most respondents said that reference prices are needed for all gilts, strips and T-bills; giving reference prices only for 'benchmark' instruments was not considered sufficient.

- While having continuous intra-day pricing was considered by many to be desirable, it was not seen as an essential element of successor arrangements.
- Most felt that end-of-day reference prices should aim to reflect the market at 4:15pm so as to align with the gilt futures close and to maintain continuity with the current end-of-day reference prices.
- The majority of respondents favour end-of-day prices representing the market at a point in time rather than, say, as an average across the day. Advantages include increased ability to hedge, consistency with fair value accounting and prices of all instruments being based on similar information (i.e., their value at the same point in time).
- Respondents were generally fairly sceptical of using interpolation to determine the prices of gilts as it would not represent the individual characteristics of each instrument. It was widely felt that, if possible, the methodology of the successor arrangements should aim to price every gilt individually.
- Deriving or interpolating reference prices for strips or T-bills did not raise similar concerns.
- Many felt that reference prices should be freely available, possibly after a short delay. Many also felt that access should be provided to all users on a fair, reasonable and non-discriminatory (FRAND) basis.
- Most respondents who expressed a view said that administrators should meet the objectives of the IOSCO Principles for Financial Benchmarks.
- When considering transition to the successor arrangements, many respondents highlighted that the transition would be more complex if there are significant differences between the methodologies used to produce the current reference prices and the successor arrangements.
- When considering possible types of input data for end-of-day gilt reference prices, several respondents to the consultation made the following points:
 - **Direct submissions:** While it could be useful to maintain the current submission based methodology for reasons of continuity it was generally felt that there were significant concerns around ensuring the stability of the panel of submitters.
 - **Transaction data:** It was unclear to most respondents whether there would be sufficient data available to base reference rates on executed transactions for all gilts and some respondents were unclear on where the data would be sourced from and how it could be verified. Several respondents highlighted that many transactions in the market are not the outright buying or selling gilts but are instead trading spreads on the yield curve, swapping one basket of gilts for another, etc. It was not clear to respondents how these trades could be used. Several respondents felt that transaction data could be useful to supplement other data rather than on its own.

- **Quotes:** Respondents were favourable towards the use of executable quotes to construct reference prices, although some questioned whether there would be sufficient data to always provide reference prices this way. There were mixed views around using indicative quotes. Some respondents indicated that weighting quotes by volume (or having minimum volumes) would be useful. Others said that having criteria or a sampling method would be important but did not state what the criteria should be.
- **Related markets:** Respondents were, in the main, sceptical about using the futures market as the primary source of data for gilt reference prices. It was felt that this would only work for the 10 year gilt future and several respondents highlighted that there are no futures for index linked gilts and were unclear how reference prices would be obtained for these gilts.

3.4 Evaluation criteria: further information

37. The table below lists the main criteria the Review team will use to evaluate the submitted proposals with some additional guidance on information which should be included in the submissions. The information listed in this table is not exhaustive.

Criterion (and guidance)	Minimum information to be provided
<i>Details of the provider's firm and business model</i>	
I <u>Firm information</u>	<p>Provide details of the activities, ownership structure and, if applicable, group structure of your firm. This should include a description of the activities your firm engages in, highlighting any regulated activities and providing evidence that your firm has the appropriate authorisation to conduct those activities. Please also provide details of your firm's credit ratings.</p> <p>Provide an organogram of the parts of your firm (and group) relevant for the provision of successor arrangements. Please indicate the relevant reporting lines and highlight individuals or committees which are accountable or responsible for decision making.</p> <p>Provide CVs for the key individuals who will be involved with the provision of the reference prices.</p>
II <u>Business model</u>	<p>Provide a statement explaining the approach to implementing a sustainable, efficient and equitable business model for the successor arrangements. Please include details of any proposed revenue models. Please also provide an estimate for how long it would take to implement fully the proposed successor arrangements.</p> <p>Highlight where the proposed business model requires arrangements to be made with third party organisations and give details of these arrangements making clear whether these are already in place or, if not, your plans for implementing them.</p> <p>Explain how and where you intend to publish the reference prices, making clear how different users will be able to access the prices and on what terms.</p>
<i>Details of the plans for the provision of the reference prices</i>	
III <u>Input data</u>	<p>Describe the input data which will be used to construct the proposed reference prices. Include details of the proposed sources of the input data and any arrangements which need to be made with third party providers. Explain any risks to the long term sustainability of using your choice of sources of input data, highlighting any plans you have to manage these risks.</p>

		<p>Explain how you plan to monitor the integrity of the input data.</p> <p>Provide details of any potential conflicts of interest associated with the sourcing of the input data and, if applicable, the proposed steps to manage these conflicts.</p> <p>Highlight any risks arising at times of market stress or disruption you have identified with your proposed choice of input data which could affect the provision or accuracy of the reference prices. Indicate how you intend to mitigate these risks.</p> <p>Explain how you will monitor whether the data is sufficient to represent the underlying market and what steps you will take if the data is not sufficient. Include details of any other proposed sources of input data and how they will be used.</p>
IV	<u>Methodology</u>	<p>Please give full details of your proposed methodology, including an explanation of you aim to accurately represent the underlying assets. Include details of any sampling methods used to select or refine the input data and the rationale for their design.</p> <p>Provide details of any contingency plans, including how they are triggered and an explanation of how you are satisfied that they are sufficient.</p> <p>Set out any limitations to your methodology which could present a risk to the availability or accuracy of the reference prices.</p> <p>Highlight any parts of your methodology which may need to be adapted over time if there are changes in the market.</p> <p>If possible, please provide an analysis (e.g., back testing) of how the reference prices produced by your proposed methodology would compare with those currently produced by the DMO.</p>
V	<u>Systems and resources</u>	<p>Outline existing, or proposed, IT software and general infrastructure that is proposed to be used to provide the successor arrangements. Please distinguish between what processes and technology already exists and what requires implementation including details of estimated timelines for implementation.</p> <p>Give details of your business continuity plans and an explanation of why you view them as effective. In particular please highlight how your systems and resources will minimise the risk of</p>

		reference prices not being provided. Please outline your assessment of cyber security risks and your approach to managing any such risks.
<i>Details of proposed approach to governance and industry standards</i>		
VI	<u>Governance, oversight and accountability</u>	Provide details of your proposed governance, oversight and accountability structure for the provision of the reference prices. If applicable, include details of any plans for an oversight committee including its membership ³ and activities. Provide details of any potential conflicts of interest relating to the determination of the proposed reference prices arising from the ownership or control structure of your firm or due to other interests of your staff or wider group. If conflicts are identified, include details of how they will be managed. Give details of any plans to outsource functions related to the provision of the reference prices. Explain your proposed approach to monitoring the quality of any such arrangements.
VII	<u>Industry standards</u>	Provide a statement outlining how your approach fits with the objectives of the IOSCO Principles for Financial Benchmarks ⁴ highlighting (and justifying) any anticipated use of proportionality. Distinguish clearly what processes you already have in place and which would need to be implemented, including an estimated timeline for doing so.

³ If it is not known which individuals may sit on the oversight committee, please specify your intended approach to the composition of the committee (e.g., representatives of end-users, GEMMs, official sector, different parts of your firm, etc.).

⁴ Available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD415.pdf>