

Guide to the Calculation of Tradeweb FTSE Gilt Closing Prices

v2.2



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Section 1

Introduction

1. Introduction

1.1 Scope

1.1.1 This guide describes the method by which Tradeweb FTSE Gilt Closing Prices for UK gilts are derived. The process is the joint responsibility of Tradeweb and FTSE Russell. The reference prices of conventional and index-linked gilts are used in the calculation of the FTSE Actuaries UK Gilts Index Series. Prices for gilt strips and UK treasury bills are also produced.

1.2 FTSE Russell

FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and FTSE Fixed Income Europe Limited), FTSE Fixed Income LLC, FTSE (Beijing) Consulting Limited, Refinitiv Benchmark Services (UK) Limited, Refinitiv Limited and Beyond Ratings.

1.3 Tradeweb

1.3.1 Tradeweb Europe Limited is incorporated in the UK and regulated by the Financial Conduct Authority. Tradeweb builds and operates electronic marketplaces including a multilateral trading facility (MTF) pursuant to the Markets in Financial Instruments Directive (MiFID) that was implemented in the UK in 2007.

1.4 Overview of the origination of the reference prices

- 1.4.1 Since 1998, end-of-day gilt reference prices have been published by the UK Debt Management Office (DMO) on behalf of the Gilt-Edged Market Makers Association (GEMMA) based on aggregating prices submitted by gilt-edged market makers (GEMMs).
- 1.4.2 In 2015, the DMO announced its intention to withdraw from providing end-of-day GEMMA reference gilt and treasury bill prices, and the publication of its intra-day prices.
- 1.4.3 Following a review of alternative sources of reference prices by the independent reference prices review team appointed by HM Treasury, Tradeweb and FTSE Russell were selected to provide reference prices following a transition period agreed in conjunction with the DMO.
- 1.4.4 The DMO ceased publishing end-of-day reference prices on 21 July 2017. From 24 July, the responsibility for publishing the prices has resided with Tradeweb and FTSE Russell.

1.5 IOSCO Principles for financial benchmarks

1.5.1 In accordance with the requirements set out in the request for proposals issued by the Independent Reference Prices Review in July 2016, FTSE Russell will administer the Tradeweb FTSE gilt closing prices in accordance with the IOSCO final report on Principles for Financial Benchmarks published in July 2013 (the IOSCO Principles).

1.6 Publication

1.6.1 The reference prices are calculated at the end of each business day. Delivery is available through a variety of mechanisms, including the Tradeweb marks file service.

Section 2

Management responsibilities

2. Management responsibilities

2.1 FTSE International Limited (FTSE)

2.1.1 FTSE is the administrator of the Tradeweb FTSE Closing Gilt Prices¹.

2.2 Tradeweb

2.2.1 Tradeweb is responsible for calculating the reference prices based on executable price quotes available on their electronic trading platform.

2.2.2 Tradeweb is the calculation agent of the Tradeweb FTSE gilt closing prices as defined by the IOSCO Principles.

2.3 FTSE EMEA Fixed Income Advisory Committee

2.3.1 The FTSE EMEA fixed income advisory committee has been established by FTSE Russell.

The committee provides external oversight of the process by which Tradeweb calculates end-of-day reference prices for all conventional and index-linked gilts, gilt strips and UK treasury bills. The committee may also approve changes to this methodology. The terms of reference of the FTSE EMEA fixed income advisory committee are set out on the FTSE Russell website and can be accessed using the following link:

[FTSE EMEA Fixed Income Advisory Committee.pdf](#)

¹ The term administrator is used in this document in the same sense as it is defined in the IOSCO Principles for Financial Benchmarks and Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the European Benchmark Regulation) and [The Benchmarks \(Amendment and Transitional Provision\) \(EU Exit\) Regulations 2019](#) (the UK Benchmark Regulation).

Section 3

Derivation of Tradeweb FTSE gilt closing prices

3. Reference prices

3.1 Prior to the transition in July 2017, end-of-day gilt reference prices will be provided by the UK Debt Management Office. After the transition, the provision of reference prices will jointly be the responsibility of Tradeweb and FTSE Russell. The prices are calculated by Tradeweb using the methodology outlined below, with FTSE Russell responsible for governance and oversight of the calculation process.

3.2 Prices for conventional and index-linked gilts

Prices are based on executable bid and offer prices supplied by selected UK gilt market makers to Tradeweb's electronic trading platform in a two-minute collection window centred around the notional market closing time of 16:15. (Times may vary around public holidays, for example early closing on Christmas Eve.) Only prices from gilt market makers who consistently support liquidity and provide prices for all conventional and index-linked gilts are used. The two-minute collection window is broken down into 24 five-second intervals for each security. Prices are sampled at a random time within the first five-second interval. Prices are then sampled a further 23 times at regular five-second intervals from the first interval.

For each conventional or index-linked gilt, prices are sampled this way from all GEMMs quoting prices for that bond. If, for example, 20 GEMMs are quoting bid-offer prices for a bond, then that gives 480 mid-prices for the bond over the two-minute window, where each mid-price is the arithmetic mean of associated bid and offer prices.

The prices are subject to two layers of filtering: firstly, by standard deviation (SD) to eliminate outlying GEMMs, then a number of GEMMs are also randomly eliminated. The filtering process is applied separately to each of the 24 intervals.

For each security, in the first layer of filtering the mean mid-price for each GEMM is calculated from its 24 prices within the sample window. The mean and population standard deviation of these GEMM mean prices is then calculated. Where an individual GEMM's mean price lies outside of a +/- one standard deviation range about the overall mean across all GEMMs then the prices from that GEMM are dropped from further calculations.

In the second layer of filtering, prices from a number of randomly chosen remaining GEMMs are then also dropped from further calculations.

The number chosen is given in the table below.

Number of remaining GEMMs quoting prices, post SD-filter	Number of GEMMs removed
13 or more	Three
12	Two
11	One
10 or less	Zero

The reference price for the bond is then taken as the mean of all remaining mid-prices, rounded to three decimal places for bonds with 10 years or less to maturity and two decimal places for bonds with more than ten years to maturity.

3.3 Price verification

Tradeweb compares derived prices against the Tradeweb composite prices, the previous day's price in the context of yield curve movements and prices from transactions on the Tradeweb system. Deviations outside of pre-set tolerances will result in a price failing the verification process and the triggering of a contingency plan.

3.4 Contingency plans

If a price cannot be calculated using the primary method or if a price has been calculated but fails the verification process, then contingency plans are implemented according to the hierarchy below. If a price is unavailable or fails verification using one layer of contingency, then the next layer on the hierarchy is triggered.

Contingency one: Tradeweb's composite mid-price based on non-executable dealer prices as at 16:15 is used.

Contingency two: the primary method is used, but based on a window running from 16:09 to 16:11.

Contingency three: the primary method is used, but based on a window running from 16:04 to 16:06.

Contingency four: the midday price, calculated using the primary method based on a window running from 11.59 to 12.01, is used.

Contingency five: the previous day's reference price is used.

3.5 Prices for strips

Tradeweb derives prices for all UK gilt strips from a yield curve, which is effectively fitted to the end-of-day gilt yields corresponding to the reference prices. More details on the derivation of this curve are provided in the next section.

3.6 Prices for bills

Tradeweb derives prices for UK treasury bills from a daily closing yield curve, which is based on client sell transactions over the preceding five business days that were conducted through Tradeweb's electronic platform. The window runs from 16:15 on date T-5 to 16:15 on date T (where T = trade date). Prices from outright transactions only are used. The curve is fitted using a similar method as for pricing UK strips: see the next section.

The contingency price for a bill is the previous day's reference price.

3.7 Governance and oversight

Every quarter, Tradeweb provides reports to the FTSE Russell EMEA fixed income advisory committee showing details of price contributions of all GEMMs for each gilt, the number of times contingency plans have been required and the number of times each GEMM has been dropped from the reference price calculations as a result of each of the standard deviation and randomness filters. Also every quarter, FTSE Russell requests Tradeweb data from 10 randomly chosen business days in the past quarter to reproduce the calculations of primary and window-based contingency prices for all gilts on those days. Bill and strip curves are also reproduced.

Section 4

Methodologies for pricing of strips and bills

4. Methodologies for pricing of strips and bills

- 4.1 Tradeweb derives end-of-day UK gilt strip prices from a zero-coupon yield curve calculated from the reference prices of conventional gilts. This approach follows the practice of the DMO and is in accordance with Bank of England publications^{2,3}. The methodology uses cubic splines to model an instantaneous forward curve function $f_{\beta}(m)$ where β is the vector of cubic spline parameters. The price of zero-coupon strips can be written as a function of the instantaneous forward curve:

$$B(\tau) = \exp \left[- \int_0^{\tau} f_{\beta}(m) dm \right]$$

where τ is the maturity of the bond.

The price of a coupon-paying bond can be written as:

$$P(c, \tau) = \sum_{i=1}^n cB(\tau_i) + 100B(\tau)$$

where c is the coupon payment each period, and n is the number of payments.

By minimising the following objective function, the values of the cubic spline parameters β are found:

$$X_s = \sum_{i=1}^N \left[\frac{P_i - \Pi_i(\beta)}{D_i} \right]^2 + \int_0^M \lambda(m) [f_{\beta}''(m)]^2 dm$$

where $P_i, D_i, \Pi_i(\beta)$ are respectively the observed price, the modified duration and the fitted price of bond i . $f_{\beta}''(m)$ is the second derivative of the fitted forward curve and M is the maturity of the longest bond.

The objective function has two terms: the first is the sum of the squared bond price differences, weighted by modified durations. The second term is the variable roughness penalty, which is the integral of the forward curve curvature multiplied by a smoothing function $\lambda(m)$ which satisfies:

$$\log \lambda(m) = L - (L - S) \exp \left(\frac{-m}{\mu} \right)$$

where L, S, μ are three parameters.

² Nicola Anderson and John Sleath (1999), "New estimates of the UK real and nominal yield curves", Bank of England Quarterly Bulletin, November, pp384-392.

³ Nicola Anderson and John Sleath (2001), "New estimates of the UK real and nominal yield curves", Bank of England working paper, no. 126.

4.2 Tradeweb derives end-of-day UK treasury bill prices using a similar methodology to that used to price strips. The methodology uses a piecewise constant spline to model an instantaneous forward curve function $f_{\beta}(\mathbf{m})$, where β is the vector of spline parameters and, analogously to strips, the price of a bill can be written as a function of the instantaneous forward curve:

$$B(\tau) = \exp \left[- \int_0^{\tau} f_{\beta}(\mathbf{m}) d\mathbf{m} \right]$$

where τ is the maturity of the bill.

The price of a bill can also be written as:

$$P(\tau) = 100B(\tau)$$

By minimising the following objective function, the values of the spline parameters β are found:

$$X_s = \sum_{i=1}^N \frac{e^{-(Today-TrdDate[i])/5}}{\sum_{j=1}^N e^{-(Today-TrdDate[j])/5}} * \left[\frac{P_i - \Pi_i(\beta)}{D_i} \right]^2$$

where $P_i, D_i, \Pi_i(\beta)$ are respectively the observed price, the modified duration and the fitted price of trade i . $TrdDate[i]$ is the date of trade i , N is the total number of bill trades. This objective function is the sum of the squared differences between fitted and observed prices, weighted by modified durations and exponential weights. The division of each date range by five within the exponential weights arises from the fact that transaction data from a collection window of five business days are used to arrive at the observed prices.

Constant yield extrapolation is used where maturities lie outside of the range of available data.

Based on the derived curve the yield of individual bills can be obtained (rounded to six decimal places) and the corresponding price (also rounded to six decimal places).

Section 5

Pricing of illiquid gilts

5. Pricing of illiquid gilts

- 5.1 An illiquid gilt is one for which there are consistently insufficient GEMM prices available to calculate a reliable and transparent end-of-day reference price. If for any gilt, there are fewer than five GEMMs contributing prices during the end-of-day pricing window for five consecutive business days, then that gilt will be deemed illiquid and on the fifth day and thereafter the gilt is priced according to the methodologies set out below. Note that by this definition, a rump gilt need not be illiquid unless it also meets these criteria.
- 5.1.1 **Illiquid conventional gilts:** these are priced using the same yield curve used to calculate the reference price for gilt strips. As described previously this curve is created each day using liquid conventional gilt prices. The price of the illiquid gilt is calculated by discounting each cashflow according to the zero-coupon curve output from this process. To be as transparent as possible, no spreads are assumed.
- 5.1.2 **Illiquid index-linked gilts:** these are priced from a yield curve based on linearly interpolating the real yields of all liquid three month-lag index linked gilts. From the real yield thus obtained, the corresponding price is calculated. To be as transparent as possible, no spreads are assumed.
- 5.1.3 Once a gilt becomes illiquid and is priced according to the appropriate illiquid gilt pricing methodology above, it will continue to be priced using this methodology unless and until it regains consistent liquidity. The gilt will be regarded as liquid once again if there are at least five contributing GEMMs during the end-of-day pricing window for 10 consecutive business days.

Section 6

Price challenges

6. Price challenges

6.1 Tradeweb and FTSE Russell have established a means by which clients can query or challenge the price or other measures of value of any gilt which has been calculated using the reference pricing methodology.

6.1.1 Users who wish to challenge a price or other measure of value can do so using the following link:

reports.tradeweb.com/closing-prices/challenge/

6.1.2 Clients contacting FTSE Russell with the intention of challenging a price or with a query that may reasonably be expected to result in a challenge, will be referred to Tradeweb and the above link. FTSE Russell will subsequently contact Tradeweb to check whether a challenge was made and the outcome.

6.1.3 Clients submitting a query will receive an email acknowledgement. Details of the resolution of the issue will be further communicated to the client in a timely manner. Where files are republished, all clients using the price service will be notified by email.

6.1.4 Details of challenges and ensuing actions will be tracked and reported on a quarterly basis to the FTSE Russell EMEA fixed income advisory committee.

Appendix A

Further information

A Glossary of Terms used in FTSE Russell's methodology documents can be found at:

[Fixed Income Glossary of Terms.pdf](#)

Further information on the FTSE Actuaries UK Gilts Series is available from FTSE Russell.

For contact details, please visit the FTSE Russell website or e-mail FTSE Russell client services at info@ftserussell.com.

Website: www.lseg.com/en/ftse-russell/

For further information on the delivery mechanisms for the Tradeweb FTSE Gilt Closing Prices, please e-mail Tradeweb at ECS@Tradeweb.com.

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