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RPI Consultation Team
HM Treasury
1 Horse Guards Road
Westminster
London SW1A 2HQ

Submitted via email to: RPIConsultation@hmtreasury.gov.uk

Re: Consultation on the Reform to Retail Prices Index Methodology

Dear RPI Consultation Team

Barclays Bank UK Retirement Fund

We are writing to you as the Trustee of the Barclays Bank UK Retirement Fund (the UKRF). The UKRF operates under trust law, with £36bn of assets (as of September 2019) on behalf of more than 200,000 members. The majority of the UKRF members' benefits are linked to the Retail Prices Index (RPI) over time. As such, the UKRF has allocated a significant part of the fund's assets to RPI-linked investments, primarily UK government index-linked gilts.

Regarding the consultation on the reform to RPI methodology, and in summary, the Trustee believes that the proposed alignment of RPI to CPIH will have a number of material adverse impacts across:

a. the index-linked gilt market and all inflation-linked assets, in terms of lower values, reduced trust and transparency among market participants (arising by the retrospective alteration of outstanding RPI-linked debt terms), and lower liquidity;
b. those dependent on these markets and assets – including pension funds like the UKRF and, importantly, pension fund beneficiaries among which the UKRF members who will experience lower annual uplifts to their future pension benefits relative to the current expectations.

As a result, we strongly argue that if the government and UKSA pursue the proposed approach then the date for implementation should be as late as possible, that appropriate compensation should be provided to mitigate the risk of financial harm to holders of index-linked gilts (and other inflation-linked assets) and that measures are taken to protect pension fund members with RPI-linked pension increases.

Given these wide-ranging and mostly adverse impacts of the proposed RPI reform, the Trustee is grateful for the opportunity to respond to the consultation and help to inform policy decisions. The Trustee responses to the specific questions are provided below, and we would welcome further discussion, comments and engagement on any of the points raised in the below responses.

Yours sincerely

Peter Goshawk

Peter Goshawk
Chairman of the Trustee Board
The Barclays Bank UK Retirement Fund

Responses to the consultation questions

1. **Do you agree that this proposed approach is statistically rigorous?**
   - The Trustee is not best positioned to comment on the statistical rigor of the proposed approach. However, we feel it is important to point out in relation to this question that simply allowing RPI to be replaced by another measure of inflation, in this instance CPIH, results in several adverse effects beyond the benefits of any pure statistical rigour of the change – these effects are discussed below.

2. **What will be the impact on the interests of holders of "relevant" index-linked gilts (i.e. 2½% IL 2020, 2½% IL 2024 and 4 1/8 % IL 2030) of addressing the shortcomings of the RPI in a) 2025 b) 2030 or c) any year in between?**
   - The suggested approach of aligning RPI to CPIH will not affect the first two index-linked bonds (as they mature before 2025), but will adversely impact the holders of the 4 1/8% IL 2030 – the price of this gilt will adjust lower to reflect the lower expected inflation uplift on the coupons and notional, given that RPI is proposed to be aligned with CPIH which is expected to be lower than RPI.
   - The earlier the implementation date is set between 2025 and 2030, the more material the adverse impact will be.

3. **What will be the impact on the interests of holders of all other index-linked gilts of addressing the shortcomings of the RPI in a) 2025 b) 2030 or c) any year in between?**
   - Holders of all other index-linked gilts will be adversely impacted, as their prices will adjust lower to reflect the lower expected inflation uplift on their coupon and notional, given that RPI is proposed to be aligned with CPIH which is expected to be lower than RPI.
   - The earlier the implementation date is set between 2025 and 2030, the more material the adverse impact on these index-linked gilts will be.

4. **What will be the impact on the index-linked gilt market or those dependent on it of addressing the shortcomings of the RPI in a) 2025 b) 2030 or c) any year in between?**
   - Aligning RPI with CPIH will have a materially adverse impact on the index-linked gilt market, including lower valuation for the aforementioned gilts, increased volatility (depending on the expectations of different market participants on the future difference between RPI and CPIH) and likely reduced transparency and trust among market participants who bought the gilts in good faith and on the expectation that they will pay out RPI, in its current form and construction as opposed to a structurally lower inflation measure, until their maturity. Indeed, that good faith and expectation were reinforced following the review of RPI by the National Statistician in 2012, when it was confirmed that RPI would be maintained as a legacy measure and not experience further changes. Hundreds of billions of RPI-linked government debt has been issued since then in full knowledge and awareness by the DMO that, in pricing this debt, investors are accounting for the clear differences between RPI and other, structurally lower, measures of inflation.
   - Those dependent on the index-linked market (including pension funds like the UKRF) will experience a material adverse impact on the valuation of their asset holdings (roughly estimated at c£3bn for the UKRF), and loss of future income and cashflow from the reduced coupons.
   - Pension fund beneficiaries (including the over 200,000 UKRF members) will also experience a material adverse impact, as their future pension benefits will see lower annual uplifts relative to the current expectations.
   - Given these material and potentially detrimental effects that the proposed RPI alignment to CPIH will have on the index-linked gilt market and the millions of pension members dependent on it, any changes to RPI or alignment to other inflation measures must be accompanied by appropriate measures to compensate holders of index-linked gilts (and other inflation-linked assets) and to protect pension fund members with RPI-linked pension increases. This would ensure that market participants and pension beneficiaries would broadly be no worse- or better-off following any RPI methodology changes, ensuring ongoing mutual trust, transparency and no unintended wealth transfers resulting from these changes.

5. **What other impacts might the proposed changes to address the shortcomings of the RPI have in areas or contracts where the RPI is used?**
   - In addition to index-linked gilts, several other instruments and assets that reference RPI and which are held by market participants (including pension funds like the UKRF), such as inflation swaps, UK long-lease property and infrastructure assets will be negatively impacted by the proposed RPI alignment to CPIH without provision for an appropriate compensation.
   - The proposed changes to RPI will also result in reduced transparency and trust in these markets, potentially increasing volatility, reducing liquidity and resulting in unintended wealth transfers between payers and receivers of contractual inflation-linked payments.
   - Such loss of trust between borrowers and lenders, arising by the retrospective alteration of outstanding RPI-linked debt terms may have severe implications for future pricing of debt and other inflation-linked assets, especially in the wake of the COVID-19 pandemic and the heightened need for liquidity, borrowing and stable and well-functioning financial markets. Indeed, this is also acknowledged in the consultation document itself, which notes that "*disruption to the gilt market impedes the government's ability to finance itself in a smooth, cost-effective and predictable manner*".

6. **Are there any other issues relevant to the proposal the Authority is minded to make of which the Authority or the Chancellor ought to be aware?**
   - The proposal to align RPI with CPIH will have a far greater and wider impact beyond index-linked gilts. There is a clear prospect for "winners" and "losers" to be created, with any perceived and/or actual wealth transfers introducing several negative effects on financial markets.
   - Any changes to RPI should be fair for all market participants (to the extent possible) and its potential alignment to a different inflation measure, like the CPIH, should reflect the long-term market expectations of the differential of the two inflation rates. If this change must happen, there needs to be some other form of compensation for holders and beneficiaries of RPI-linked financial instruments and assets.

7. **Which lower level or supplementary RPI indices are currently used, and what are they used for?**
   - No response

8. **What guidance would users of lower level or supplementary RPI indices find most useful for the ONS to provide?**
   - No response