Sovereign bonds

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Practice note: overview | **Maintained** | United Kingdom

A note examining some of the common features of sovereign bonds, including an analysis of the key legal terms and conditions commonly included in sovereign bonds.

What is a sovereign bond?

A sovereign bond is a *debt security* issued by the national government of a country. Countries will often be required by their laws to act through a specific ministry or public body when issuing sovereign bonds, such as through their ministry of finance. Sovereign bonds share many of the characteristics of (and are broadly issued under the same documentation as) bonds issued by corporates, however, there are certain differences and these are highlighted in this note.

Sovereign bonds can be denominated in the domestic currency of the issuer or in a foreign currency; when a sovereign bond is issued in a foreign currency (which will usually be the case where the issuer is a developing country), the most commonly used currencies are US dollars, euro, British pounds, Swiss francs and Japanese yen.

For information on corporate bonds and other debt securities in general, including how they are structured and the parties involved, see *Practice note, Bond issues: overview*.

Key terms of a sovereign bond

Commercial terms

When issuing a sovereign bond, as with corporate bonds, an issuer will usually appoint one or more managers to arrange the transaction. For more information on managers, see *Practice note, Bond issues: parties: Lead manager and managers*.

Sovereign bonds will generally include the same commercial features as other bonds. They will bear an interest rate (which is usually fixed rate but can be floating rate), with the interest rate and corresponding yield primarily determined by the market, based on the creditworthiness of the issuer (which will take into account any risks associated with the country to a large extent reflected in its credit rating).

The principal amount of a sovereign bond will usually be repayable in full at maturity (but can be repayable under an amortising structure). Most issuers will want to retain the ability voluntarily to prepay the sovereign bond at their option (with the inclusion of this option, and any associated voluntary prepayment costs, to be commercially agreed with the managers).

Pari passu provision

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Sovereign bonds will almost always contain a *pari passu* provision. This provision will specify with which of the issuer's other debt the sovereign bonds rank *pari passu*. The benchmark used to define the issuer's other debt, for the purpose of the *pari passu* provision, should therefore be carefully considered by the issuer with its advisors.

Two possible benchmarks that commonly feature in sovereign bonds (both in relation to the *pari passu* provision and other provisions, as described in this note) are "External Indebtedness" of the issuer and "Public External Indebtedness" of the issuer:

- External Indebtedness of the issuer will generally be defined as including all of the issuer's financial indebtedness that is issued under foreign law and/or denominated in foreign currency.
- Public External Indebtedness will generally be defined as including all of the issuer's External Indebtedness that is issued by way of debt securities and is listed or traded on a recognised stock exchange.

Formulations of pari passu provisions

Different formulations of *pari passu* provisions are found in sovereign bonds. In the past, two formulations have frequently been used:

- One which stated that the sovereign bond will rank *pari passu* with all of the issuer's other External Indebtedness (or other specified category of debt).
- Another which stated that the payment obligations of the issuer under the sovereign bond will rank *pari passu* with the issuer's payment obligations under its other External Indebtedness (or other specified category of debt).

This second formulation has been subject to debate as to whether it should be given a ranking interpretation (meaning that the sovereign bond had to rank at least equally to the issuer's other External Indebtedness, so could not be subordinated by the issuer) or a rateable payment interpretation (which goes a step further and provides that in addition to equal ranking, the issuer must pay its External Indebtedness creditors equally).

In the case of NML Capital Ltd v The Republic of Argentina (26 October 2012), the United States Court of Appeal upheld a rateable payment interpretation in relation to certain of Argentina's sovereign bonds that were the subject of the court case (meaning that Argentina could not continue making payments on its other sovereign bonds unless it made rateable payments under the sovereign bonds that were the subject of the case). The court's rationale was that the specific *pari passu* provision in the relevant Argentine bonds precluded Argentina from discriminating against the holders of the relevant bonds in favour of its other bonds. An additional factor in the decision was Argentina's general conduct in relation to the relevant Argentine bonds, including its enactment of the so-called "Lock Law" which prohibited Argentine governments from paying its holdout creditors, which included the claimants.

However, in the subsequent case of White Hawthorne LLC v The Republic of Argentina the same judge reinterpreted the same *pari passu* provision in a slightly different manner, suggesting that other factors (such as the overall detrimental course of conduct of the issuer) might be required in order to reach a rateable payment interpretation. It should also be noted that a Financial Markets Law Committee (FMLC) paper, entitled Analysis of the Role, Use and Meaning of *Pari passu* Clauses in Sovereign Debt Obligations as a matter of English Law and published after the NML Capital case, affirmed the FMLC's previous conclusion that the English courts would not be likely to favour a rateable payment interpretation.

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Whether any particular *pari passu* clause has the same meaning and effect as Argentina's depends upon its drafting, construed in accordance with its governing law, the broader context and any remedies available in the relevant courts.

ICMA enhanced pari passu clauses

In order to ensure greater clarity in the interpretation of *pari passu* provisions in sovereign bonds, the International Capital Market Association (ICMA) published a new model enhanced *pari passu* provision for inclusion in sovereign bonds, which expressly provides that "the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness". Two versions were published:

- One for inclusion in English law governed sovereign bonds.
- One for inclusion in New York law governed sovereign bonds.

The wording of the new model provisions was agreed by a variety of stakeholders who came together as part of a US Treasury staff led Sovereign Debt Roundtable (described in further detail below under *Model Aggregated CACs*). Many sovereigns now include an enhanced *pari passu* provision in their sovereign bonds, based on the ICMA model provision so as to ensure that there will not be a rateable payment interpretation of the provision.

The IMF Executive Board endorsed the enhanced *pari passu* clauses, and has asked its staff to monitor the inclusion of the clauses in sovereign bonds. IMF staff therefore publish periodic Progress Reports. The Third Progress Report published in December 2017 reported that 84.8% of new sovereign bond issuances since October 2014 contained an enhanced *pari passu* provision.

Representations and covenants

The terms and conditions of sovereign bonds will generally contain a more limited package of representations and covenants than those found in corporate bonds or sovereign loans. Many sovereign bonds will not contain any representations other than the *pari passu* provision.

In terms of covenants, most sovereign bonds contain a negative pledge covenant. Broadly, this will provide that, for so long as the sovereign bonds are outstanding, the issuer will not grant any security over any External Indebtedness (or other specified category of debt), unless the issuer rateably grants security over the sovereign bonds. The benchmark for the category of debt that is referenced in any negative pledge covenant, be it External Indebtedness, Public External Indebtedness or otherwise, is likely to be the same benchmark as is referenced in the *pari passu* provision.

In addition, as mentioned above, it is not uncommon for the issuer of a sovereign bond to include either a representation or covenant that it is in compliance with, or will comply with, the *pari passu* provision.

Events of default

A sovereign bond will include events of default, although these are likely to be more limited than those found in corporate bonds.

There are two standard events of default that are typically found in sovereign bonds. These are:

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- A non-payment event of default (triggered if the issuer fails to pay any amount under the sovereign bond, usually subject to a grace period).
- A breach of obligations event of default (triggered if the issuer breaches any other obligation under the sovereign bond, always subject to a grace period and sometimes subject to a materiality threshold).

Many sovereign bonds issued by highly creditworthy sovereigns will only include these two events of default.

Some sovereign bonds will also include a cross acceleration event of default. This will be triggered if the issuer fails to make a payment on any External Indebtedness (or other specified category of debt) and such External Indebtedness is accelerated so that it is due prior to its originally scheduled due date.This will usually be subject to a minimum threshold amount (so that an acceleration of a *de minimis* amount of External Indebtedness will not trigger the event of default).

It is possible, but uncommon, for a sovereign bond to instead include a cross default event of default, which would be triggered if the issuer fails to make a payment on any External Indebtedness (with no requirement that such External Indebtedness is accelerated in order for the event of default to be triggered).

Sovereign bonds will not contain insolvency events of default (as these would not be applicable to a country). Instead, some sovereign bonds contain one or more of the following sovereign specific events of default:

- A moratorium event of default, which will be triggered by the issuer declaring a moratorium over some or all of its External Indebtedness (or other specified category of debt), often subject to a minimum threshold amount.
- A repudiation event of default, which will be triggered by the issuer repudiating some or all of its External Indebtedness (or other specified category of debt), often subject to a minimum threshold amount.
- The issuer ceasing to be a member of the International Monetary Fund (the IMF) or ceasing to be eligible to use the general resources of the IMF. The requirement that the issuer remains eligible to use the general resources of the IMF is not always included in this event of default, but is preferable from a bondholder perspective as it would be more likely for a country to cease to be eligible to use the general resources of the IMF than for that country to cease to be a member of the IMF.

There is no limitation on what events of default can be included in sovereign bonds, and this will primarily be negotiated among the issuer, the managers and their respective legal counsel. Other events of default that are sometimes included in sovereign bonds include the following:

- An invalidity event of default, which will be triggered if the lawfulness or validity of the sovereign bonds is challenged by the issuer, any of its agencies and/or any relevant court.
- Judgment and arbitral award events of default, which will be triggered if there is a final judgment or arbitral award, as applicable, against the issuer in respect of the issuer's External Indebtedness (or other specified category of debt) above a minimum threshold amount.
- A consents event of default, which will be triggered if any consent, filing or other authorisation required in connection with the issue of the sovereign bonds ceases to be valid and in full force and effect.

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If an event of default occurs, in order for the bondholders to accelerate the sovereign bonds, it is usual that holders of a minimum proportion of the principal amount of the sovereign bonds will need to give notice to the trustee or the fiscal agent (as applicable).

The minimum proportion will usually be 25% of the outstanding principal amount of the sovereign bonds. In some sovereign bonds, the minimum proportion will be 50%, while in other sovereign bonds there will be no minimum proportion (meaning that any holder can give a notice of acceleration following the occurrence of an event of default).

It is beneficial to an issuer for there to be a requirement that a minimum proportion of holders deliver a notice of acceleration in order to accelerate the sovereign bonds as, in practice, this often requires bondholder coordination.

Governing law and dispute resolution provisions

Governing law

Sovereign bonds can be governed by the domestic law of the issuer or by foreign law. The most common foreign governing laws of sovereign bonds are English law and New York law.

Where a sovereign bond is governed by the domestic law of the issuer, it should be borne in mind that the issuer (through its own legislative procedures) would have the ability to change its domestic law in a manner which impacts the sovereign bonds.

An example of this occurred in 2012 in relation to Greece's sovereign bonds, with Greece passing a domestic law retroactively to include an aggregated collective action mechanism in its existing sovereign bonds that were governed by Greek law. Greece passed this law in connection with its 2012 sovereign debt restructuring and, notably, was not able retroactively to include this voting mechanism in its foreign law governed sovereign debt. Aggregated collective action clauses are discussed further below under *Model Aggregated CACs*.

Dispute resolution provisions

As with corporate bonds, sovereign bonds should include dispute resolution provisions, which will either provide for the submission to the jurisdiction of specific courts or the submission to a specific arbitral forum. For more information on the differences between litigation and arbitration, see *Country Q&A, Litigation and enforcement in the UK (England and Wales): overview: Main dispute resolution methods*.

The submission to the jurisdiction of specific courts can be to the domestic courts of the issuer or to foreign courts (the latter is more common where the bonds are governed by foreign law). Where an issuer submits to foreign courts, these are most likely to be the English courts or the New York courts.

Where an issuer submits to a specific arbitral forum, two forums that are sometimes included are the London Court of International Arbitration or the International Chamber of Commerce.

Submission to an arbitral forum is often chosen by an issuer where, in the issuer's jurisdiction, foreign court judgments are not recognised by the domestic courts of the issuer.

If an issuer submits to an arbitral forum, it should be checked that the issuer is a signatory to the 1958 New York Convention so as to ensure that any foreign arbitral award will be recognised by the issuer's domestic courts (for more information, see *Glossary, New York Convention*).

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Local lawyers on a transaction should advise on any limitations applicable to an issuer in relation to the dispute resolution forum for its sovereign bonds, as well as the issuer's past practice in this regard. It is worth noting that arbitral proceedings are private in nature whilst proceedings in the courts are public.

Sovereign immunity and waivers of immunity

Countries around the world will benefit, to an extent, from sovereign immunity. The rules on, and exceptions to, state immunity are described in more detail in *Practice note, Sovereign immunity: state immunity from adjudication and enforcement*.

When entering into a sovereign bond, an issuer will be expected to waive its sovereign immunity from both suit (otherwise known as adjudication or jurisdiction) and enforcement (otherwise known as execution) to the fullest extent permitted by law.

An issuer will need to waive its sovereign immunity from suit, so that the relevant dispute resolution proceedings under the sovereign bond can be brought against it by bondholders (without the risk to bondholders that the issuer subsequently attempts to assert sovereign immunity).

Similarly, an issuer will also need to waive its sovereign immunity from enforcement, so that any judgment or arbitral award obtained against the issuer can be enforced against it (or any alternative remedy such as an injunction can be sought against the issuer).

In a sovereign bond, the waiver of the aforementioned immunities is usually achieved contractually, with a provision included in the terms and conditions of the sovereign bond explicitly stating that "the issuer waives any right to claim sovereign or other immunity from jurisdiction [or suit or adjudication] or execution [or enforcement] in respect of any proceedings" arising in connection with the sovereign bond.

Most issuers will, however, be limited by their domestic law on the extent to which they may waive their sovereign immunity. By way of example, most countries will not be able to waive their sovereign immunity in respect of diplomatic or consular properties, central bank reserves or cultural heritage property. In respect of these, an issuer might waive their sovereign immunity "to the extent permitted by local law" or might waive their sovereign immunity except in relation to a defined list of assets in respect of which no waiver is given.

A limited number of issuers do not include a waiver of immunity in respect of their sovereign bonds. Local lawyers on a transaction should advise on an issuer's domestic law limitations in relation to waiving the issuer's sovereign immunity, as well as the issuer's past practice in this regard.

Service of process

As with other instances where a non-English party enters into a contract governed by English law, a sovereign will be expected to agree to service of process at a location in England.

Some issuers of English law governed sovereign bonds will appoint a specialist corporate process agent (in the same manner as foreign corporates often do). However, an alternative is for an issuer to agree to service of process on its embassy in England.

One consideration when structuring a transaction is that when agreeing to service of process on an embassy, the relevant office should be named as the proposed recipient rather than the individual who is the incumbent office

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holder. The English courts have also held that a claim can be served on an embassy in England without needing the prior consent of the ambassador.

Other terms in sovereign bonds

In addition to having an ability voluntarily to prepay its sovereign bonds, an issuer will also want to have the ability to be able to purchase its sovereign bonds at any price on the open market. An issuer might want to have the ability to do this for ongoing general debt management purposes. Usually, if an issuer purchases its own sovereign bonds, they may be (but are not required to be) cancelled at the option of the issuer.

An issuer's ability to purchase its own sovereign bonds can be sensitive if it does so at a time when it is in default on payments on those sovereign bonds. In such a scenario, an issuer will need to evaluate not only its contractual rights but also any securities laws or market regulations that may impact its ability to make such purchases in such circumstances.

As with corporate bonds, many sovereign bonds will contain a further issues provision. This will allow the issuer to issue additional sovereign bonds which will be consolidated with the originally issued sovereign bonds (subject to certain requirements, including the additional sovereign bonds having identical terms and conditions to the originally issued sovereign bonds, other than in respect of the first payment of interest).

Sovereign bonds will generally contain similar boilerplate provisions as are included in corporate bonds. For example, in English law sovereign bonds, a rights of third parties provision (stating that no rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999) should be included.

Majority voting provisions and collective action clauses

Voting provisions: ICMA Model CACs

The voting provisions that are included in the terms and conditions of sovereign bonds have changed over the past few years.

Previously, most sovereign bonds included collective action clauses (CACs) in their terms and conditions based on the Model CAC for inclusion in sovereign bonds that was published by ICMA in 2004.

For sovereign bonds which contain CACs, any modifications to the terms and conditions can be made if proposed by the issuer and agreed to by holders of 75% of the outstanding principal amount of the sovereign bond (for reserved matters) or holders of 50% of the outstanding principal amount of the sovereign bond (for all other matters). If the requisite number of votes are obtained, then the vote will bind all holders of the sovereign bond (including those that did not vote in favour).

The sovereign bond will set out a list of reserved matters, which will be core terms of the bond that require the consent of a higher proportion of holders in order for a modification to be made, such as changes to the currency, interest rate or payment dates.

If a country encounters financial difficulties, it may seek to restructure or reschedule its outstanding stock of sovereign bonds so as to obtain debt relief. Possible ways to achieve this are for an issuer to seek reductions in the interest rate or principal amount of its outstanding sovereign bonds, or extensions to the maturities of the bonds.

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If an issuer has multiple series of outstanding sovereign bonds and each of the sovereign bonds contains CACs, the issuer will need separately to seek the consent of the required majority of holders for each such series of sovereign bonds. Ideally, an issuer will seek to reach substantially similar agreements with the holders of each of its series of sovereign bonds.

Holdout creditors

One concern that has arisen over the years in relation to sovereign debt restructurings is the role played by holdout creditors. Where an issuer has multiple series of outstanding sovereign bonds, it may not be able to obtain the requisite number of votes from the holders of each series of its sovereign bonds in order to pass the desired modifications to its bonds or a restructuring.

This problem can be exacerbated where creditors purchase sufficient amounts of a single series of the issuer's sovereign bonds so as to ensure that any vote on proposed modifications or restructuring to that series of sovereign bonds does not pass (known as a blocking position). This has happened in connection with certain recent sovereign debt restructurings, such as those of Greece and Argentina, where holdout creditors purchased sovereign bonds that did not contain CACs, or purchased sufficient amounts of certain series of sovereign bonds that did contain CACs, so as to ensure that votes on those series could not pass without their consent

Through this approach, holdout creditors may be able to ensure that certain series of sovereign bonds are not restructured as part of a wider sovereign debt restructuring, increasing the execution risk for any plan by a sovereign to reach debt sustainability. This is particularly sensitive where the majority of bondholders are prepared to support such a country's efforts (which often require backing from the official sector and efforts by the country concerned in terms of macroeconomic adjustments).

Model Aggregated CACs

An informal Expert Group, hosted by a US Treasury staff led Sovereign Debt Roundtable, was convened in early 2013 to consider potential reforms to sovereign bond contracts to facilitate future sovereign debt restructurings and minimise holdout creditor risk. The Expert Group included IMF staff and US Treasury staff, as well as ICMA, a number of sovereigns, academics, market practitioners and investors.

Separately, in December 2013 and June 2014, ICMA published two consultation papers on proposals for CACs with an aggregated voting mechanism to be included in sovereign bonds, which were designed to facilitate future sovereign debt restructurings and address the problem of holdout creditors.

Subsequently, in 2014, ICMA published new model Standard Aggregated Collective Action Clauses (the Model Aggregated CACs) for inclusion in sovereign bonds governed by English law (with further Model Aggregated CACs for inclusion in sovereign bonds governed by New York law published in 2015), which reflected the feedback received as part of the ICMA consultations and the Sovereign Debt Roundtable discussions.

Options under the Model Aggregated CACs

The Model Aggregated CACs offer an issuer three options to modify or restructure its sovereign bonds:

- **Single series modification**. As with the 2004 Model CACs, the issuer can propose a modification to a single series of its sovereign bonds. For the modification to be approved, it will need to be agreed to

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by holders of 75% of the outstanding principal amount of the sovereign bond (for reserved matters) or holders of 50% of the outstanding principal amount of the sovereign bond (for all other matters).

- **Multiple series modification: two limb voting**. The issuer can also propose a modification to multiple series of its sovereign bonds, with a requirement that the modification is approved by both (i) holders of 50% of the principal amount outstanding of each individual series of sovereign bonds and (ii) holders of $66\frac{2}{3}$% of the aggregate principal amount outstanding of all of the sovereign bonds that are subject to the aggregation.
- **Multiple series modification: single limb voting**. Alternatively, the issuer can propose a modification to multiple series of its sovereign bonds, with a requirement that the modification is approved by holders of 75% of the aggregate principal amount outstanding of all of the sovereign bonds that are subject to the aggregation.

In order to avoid cherry picking by an issuer, an additional requirement for single limb voting modifications is that a "Uniformly Applicable" condition is satisfied. In order for the "Uniformly Applicable" condition to be satisfied, the modifications proposed by the issuer will have to be uniformly applicable and on the same terms to holders of all of the sovereign bonds that are the subject of the aggregation (meaning that the same instrument or menu of instruments are offered in relation to an exchange proposal).

An issuer will also have the option to aggregate some but not all of its sovereign bonds using the above voting options, and can aggregate multiple groups of bonds using different voting options for each group.

Other provisions and covenants

In addition to the three voting options contained in the Model Aggregated CACs, there is also an information covenant. This covenant sets out:

- The information that an issuer must publish prior to, or on, the date that it proposes any modification or restructuring, including a description of the issuer's economic and financial circumstances (which will likely be relevant to the proposed modification or restructuring).
- A description of the issuer's proposed treatment of external debt securities that fall outside the scope of any proposed multiple series aggregation.
- The issuer's broad policy reform programme and provisional macroeconomic outlook.

The Model Aggregated CACs also contain a disenfranchisement provision, which provides that for the purpose of any modifications proposed thereunder, any sovereign bonds owned or controlled, directly or indirectly, by the issuer will not be counted for the purpose of any vote.

Aggregated CACs were endorsed by the IMF Executive Board, the IIF and the G20, among others. The IMF Executive Board has asked staff to monitor the inclusion of aggregated CACs and enhanced *pari passu* clauses in sovereign bonds. IMF staff therefore publish periodic Progress Reports. The Third Progress Report published in December 2017 reported that aggregated CACs were included in 87.1% of new issuances of sovereign bonds since October 2014.

Noteholders' committees

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In 2004, ICMA published a recommended form of noteholders' committee provision for inclusion in sovereign bonds in order to facilitate creditor engagement.

The 2004 version had to be updated to reflect the new reality of the Model Aggregated CACs and as a result, in 2014, ICMA published a revised version of the noteholders' committee provision.

Whilst the 2004 version was included in many English law governed bonds, it appears that inclusion of a noteholders' committee provision in sovereign bonds is falling out of favour with sovereigns.

The noteholders' committee provision published by ICMA in 2014 allows for a noteholders' committee to be appointed by holders of at least 25% of the aggregate principal amount outstanding of the issuer's debt securities upon the occurrence of any of certain events. The key elements of the noteholders' committee provision are that the issuer must engage with the noteholders' committee in good faith and the issuer should pay the reasonable fees and expenses of the noteholders' committee.

If more than one noteholders' committee is appointed by holders, an issuer is able to engage with a steering committee (which represents the multiple noteholders' committees).

Structure, documents and other considerations

Documents

The documents used for sovereign bonds will generally be similar to the documents used for corporate bonds. For an overview of the documentation used generally for bonds, see *Practice note, Bond issues: documents*.

Sovereign bonds can be issued as either bearer securities or registered securities. For an overview on the differences between them, see *Practice note, Bond issues: overview: Forms of bonds*.

Parties

As with corporate bonds, the issuer of a sovereign bond will need to decide whether to issue the bonds under a trustee structure or a fiscal agency structure. For more information on the roles of a fiscal agent or trustee, and the differences between them, see *Practice note, Debt securities: fiscal agent v trustee*. Sovereign bonds issued under English law tend to adopt a fiscal agency structure but issuing under a trust structure could have a dampening effect on litigation.

In addition to a fiscal agent or trustee, other parties to a sovereign bond will include managers and paying agents. Legal counsel will also be involved. For a description of the parties to a bond issue and an explanation of their roles and responsibilities, see *Practice note, Bond issues: parties*.

Listing

As with corporate bonds, sovereign bonds will usually be listed on a recognised stock exchange. For detailed explanations of listing procedures on the London Stock Exchange, see *Practice note, Listing debt securities in London: step-by-step guide*.

In connection with the listing of a sovereign bond, the issuer will need to prepare an offering document. The requirements for the form of the offering document will be driven by the listing rules of the relevant stock

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exchange. Appropriate levels of due diligence will need to be determined by the managers depending on certain listing, legal and regulatory requirements.

Credit ratings

In connection with the issue of sovereign bonds, most issuers will obtain a credit rating for the sovereign bonds from a recognised rating agency. For an overview on credit ratings for bonds, see *Practice note, Credit ratings*.

Sovereign bonds in the UK

Most sovereign bonds issued in the UK are called *gilts* (or gilt-edged securities). Gilts are issued by the UK Debt Management Office (DMO) on behalf of HM Treasury and are bought by investors, either directly from the DMO or in the secondary market. All gilts are listed on the London Stock Exchange.

Most gilts (around 75%) carry a fixed rate of interest, payable semi-annually. The remainder are "index-linked", in that all or part of the interest payment is linked to the UK Retail Prices Index (RPI)). For index-linked gilts, each coupon payment is adjusted to reflect the increase in the RPI since the gilt's issue. The RPI adjustment is based on the RPI prevailing either eight months before the interest payment date, or, for gilts issued since 2005, three months before the interest payment date.

Some fixed rate gilts are capable of being "stripped". This means that the principal can be separated from the coupons and be traded separately as a zero-coupon gilt, while the coupon strips can also be traded separately. While the coupon strips are fungible with all other coupon strips that are payable on the same date, the principal strips are only fungible with principal strips from the same strippable gilt. An issue of gilts cannot be stripped until it is declared strippable by the DMO. To avoid the creation of illiquid markets for the strips and the unstripped gilts, the DMO will generally not declare an issue to be strippable unless £5 billion in nominal value has been issued.

The Bank of England has also issued bonds in euro and dollars under its debt issuance programme. In June 2014, the HM Treasury brought a £200 million bond sukuk to market and in October 2014, HM Treasury issued a RMB 3 billion bond; the first ever non-Chinese renminbi denominated sovereign bond.

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